

**REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA**

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**TO ADEQUATELY MANAGE AND PROTECT ITS ASSETS,  
THE SWEETWATER UNION HIGH SCHOOL DISTRICT  
NEEDS TO IMPROVE ITS CONTROL OVER ITS  
FINANCIAL OPERATIONS**

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F-962

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THE SWEETWATER UNION HIGH SCHOOL DISTRICT  
NEEDS TO IMPROVE ITS CONTROL OVER ITS FINANCIAL OPERATIONS

JULY 1990



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Kurt R. Sjoberg  
Acting Auditor General

July 25, 1990

F-962

Honorable Elihu M. Harris, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 2148  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning Sweetwater Union High School District's need to improve its controls over financial operations and to more adequately manage and protect its assets.

Respectfully submitted,

A handwritten signature in cursive script, reading "Kurt R. Sjoberg".

KURT R. SJOBERG  
Acting Auditor General

## TABLE OF CONTENTS

	<u>Page</u>
<b>SUMMARY</b>	S-1
<b>INTRODUCTION</b>	1
<b>AUDIT RESULTS</b>	
<b>I THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER EQUIPMENT</b>	9
THE DISTRICT HAS NOT MAINTAINED ADEQUATE CONTROL OVER PROPERTY	9
THE DISTRICT HAS NOT PROPERLY DOCUMENTED SOME TRANSFERS OF EQUIPMENT	14
CONCLUSION	16
RECOMMENDATIONS	16
<b>II THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER PURCHASING</b>	19
THE DISTRICT HAS NOT ENSURED THAT ALL PURCHASES ARE APPROVED	20
THE DISTRICT HAS NOT ALWAYS FOLLOWED PROPER BIDDING PROCEDURES	23
THE DISTRICT HAS NOT ALWAYS FOLLOWED PROPER ACCOUNTING PROCEDURES	27
CONCLUSION	31
RECOMMENDATIONS	32



## TABLE OF CONTENTS (Continued)

	<u>Page</u>
<b>III THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER CAFETERIA OPERATIONS</b>	<b>35</b>
THE DISTRICT LOST INTEREST IT COULD HAVE EARNED ON CAFETERIA FUNDS	36
THE DISTRICT'S CONTROL OVER CAFETERIA CASH HAS BEEN INADEQUATE	37
THE DISTRICT'S FOOD SERVICES DEPARTMENT HAS NOT ADEQUATELY SEPARATED DUTIES IN ITS ACCOUNTING OPERATIONS	40
THE DISTRICT COULD NOT LOCATE SUPPORT FOR SOME REIMBURSEMENTS FROM FEDERAL PROGRAMS	43
CONCLUSION	44
RECOMMENDATIONS	45
<b>IV THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER PERSONNEL AND PAYROLL ACTIVITIES</b>	<b>49</b>
THE DISTRICT'S PERSONNEL DEPARTMENT HAS NOT ADEQUATELY DOCUMENTED AUTHORIZATIONS, APPROVALS, AND FUNDING SOURCES FOR SALARIES	50
THE DISTRICT ISSUED SOME PAYROLL WARRANTS WITHOUT EVIDENCE OF PROPER CERTIFICATION	53
THE DISTRICT HAS NOT ADEQUATELY SEPARATED DUTIES RELATED TO SOME PAYROLL PROCEDURES	54
CONCLUSION	55
RECOMMENDATIONS	56

## TABLE OF CONTENTS (Continued)

	<u>Page</u>
<b>V THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER ITS REVOLVING FUND</b>	<b>57</b>
THE DISTRICT HAS NOT COMPLIED WITH THE EDUCATION CODE, ITS OWN POLICIES AND REGULATIONS, AND EMPLOYMENT AGREEMENTS OF THE SUPERINTENDENT'S CONTRACT	57
THE BOARD OF TRUSTEES HAS NOT FOLLOWED SOME REQUIREMENTS OF THE SUPERINTENDENT'S CONTRACT OR ESTABLISHED ADEQUATE REVOLVING FUND REGULATIONS	59
THE DISTRICT HAS JEOPARDIZED THE COLLECTION OF CASH ADVANCES	61
CONCLUSION	62
RECOMMENDATIONS	62
<b>VI THE SWEETWATER UNION HIGH SCHOOL DISTRICT HAS NOT FOLLOWED ALL STATE REGULATIONS GOVERNING STATE FUNDS</b>	<b>65</b>
THE DISTRICT HAS NOT USED SOME OF ITS SPECIAL PROGRAM EQUIPMENT AS REQUIRED	65
THE DISTRICT HAS NOT COMPLIED WITH ALL STATE REGULATIONS RELATED TO THE EXPENDITURE OF DEFERRED MAINTENANCE FUNDS	66
THE DISTRICT MADE SOME LOTTERY EXPENDITURES THAT WERE NOT IN COMPLIANCE WITH THE CALIFORNIA GOVERNMENT CODE	69
THE DISTRICT INCORRECTLY CHARGED HEALTH AND WELFARE BENEFITS TO THE MENTOR TEACHER PROGRAM	71
CONCLUSION	72
RECOMMENDATIONS	73

**TABLE OF CONTENTS (Continued)**

	<b><u>Page</u></b>
<b>APPENDIX</b>	
A    COOPERS & LYBRAND'S REPORT OF FINDINGS AND RECOMMENDATIONS FOR THE SWEETWATER UNION HIGH SCHOOL DISTRICT IDENTIFIED FROM JULY 1, 1986 THROUGH APRIL 30, 1989	77
<b>RESPONSE TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT</b>	
Sweetwater Union High School District	91
<b>THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS ON THE     RESPONSE FROM THE SWEETWATER UNION HIGH SCHOOL DISTRICT</b>	107

## SUMMARY

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### RESULTS IN BRIEF

During our audit of the Sweetwater Union High School District (district), we determined that, because of weak internal controls, the district has been susceptible to misappropriation of district assets, as well as other abuses. Although we found no evidence during our review to support allegations of criminal activities at the district, we noted the following conditions:

- Since approximately 1981, the district has not maintained a listing of all the fixed assets it has purchased, nor has it taken a complete physical inventory since approximately 1975;
- The district lost interest income of approximately \$140,000 from July 1, 1987, through December 31, 1989, by using private bank accounts for cafeteria fund transactions rather than maintaining these funds with the San Diego County treasurer;
- The district expended approximately \$943,000 without evidence of the required board approval;
- The district expended state funds of approximately \$737,000 that were not allowable according to state regulations;
- The district paid invoices totaling approximately \$69,000 without evidence that it had received the goods or services; and
- The district has had weak internal control over cafeteria operations, making itself susceptible to the concealment of possible fraudulent acts.

Since the district hired a new purchasing supervisor in June of 1989, it has improved its compliance with the State's and its own procurement policies and regulations.

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## BACKGROUND

The district is the largest secondary school district in the State and provides for the educational needs of approximately 27,000 students in grades 7 through 12 and approximately 45,000 students in the adult education program. A board of trustees, comprising five board members and a student representative, oversees the district's activities. In October of 1988, according to the superintendent, the president of the board called the superintendent to inform him that a member of the community was alleging that widespread thefts of district property were occurring and that district employees were involved in kickbacks from vendors. At approximately the same time, the superintendent requested a district employee to oversee an inventory of district equipment. This inventory identified approximately \$386,000 of equipment that could not be located. In addition, the accounting firm of Coopers & Lybrand reviewed transactions related to district lottery revenues, disclosing significant internal control weaknesses over budgeting, purchasing, and receiving. Approximately two months later, a former employee of the district stated that he had received evidence from other employees and a private investigator of criminal activity at the district. Recently, the grand jury issued its report on the district's operations.

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## PRINCIPAL FINDINGS

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### The District Needs To Improve Its Control Over Equipment

Contrary to the California Education Code and its own policies, the district has not maintained adequate control over its property. Specifically, the district has not maintained the records it needs to locate all of its equipment. In addition, the district has not adequately monitored and documented transfers of equipment. As a result of these weaknesses,

the district cannot locate some of its equipment and has increased its vulnerability to losses or misuse of equipment.

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#### The District Needs To Improve Its Control Over Purchasing

The district did not consistently follow required purchasing procedures from July 1, 1987, through December 31, 1989. The district's board of trustees established policies and regulations to ensure that the district's purchasing department offers centralized purchasing services consistent with sound business management principles and budgetary limitations. However, the district did not always comply with procedures governing approval, bidding, and accounting. For example, the district did not ensure that a supervisor properly approved requisitions for 60 (67 percent) of the 90 items we tested for general procurement and for 23 (88 percent) of the 26 items we tested for cafeteria procurement. In addition, the district did not follow proper bidding procedures for 36 (60 percent) of the 60 items we tested for general procurement and for 26 (62 percent) of the 42 items we tested for cafeteria procurement. Also, for 11 (12 percent) of the 90 general procurement items tested and 20 (56 percent) of the 36 cafeteria procurement items tested, the district did not ensure that payments were supported by authorized purchase orders and certified receiving documents. According to the new purchasing supervisor for general procurement purchasing, whom the district hired on June 5, 1989, the district is currently in the process of establishing detailed procedures and is enforcing existing policies and regulations that should improve control over purchasing. Our test results show improved compliance in most general procurement areas between the period July 1, 1989, through December 31, 1989, as compared with the period July 1, 1987, through June 30, 1989.

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The District Needs To  
Improve Its Control Over  
Cafeteria Operations

The district needs to improve its control over cafeteria operations. The district has not followed good management practices to ensure that interest earnings on district funds are maximized, resulting in the loss of approximately \$140,000 in interest it could have earned on cafeteria funds over two and one-half years. In addition, the district has lacked adequate control over cafeteria cash. For example, it has not used cash registers to control cash, nor has it adequately limited access to cash and blank checks. Moreover, contrary to good internal control practices, the district has not ensured an adequate separation of duties related to cash receipts, cash disbursements, and purchasing in the food services department. Poor internal controls could lead to theft and fraud. Finally, the district did not always retain documents to support claims for reimbursement from federal programs. If the district does not retain these documents, the California Department of Education may consider these claims as overpayments and seek recovery.

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The District Needs To Improve  
Its Control Over Personnel  
and Payroll Activities

The district has not always adequately controlled its personnel and payroll activities. In our review of district personnel files, we could not find any evidence that the personnel department has always authorized and the board of trustees has always approved the initial hiring of employees. In addition, the personnel department has not always indicated the program or fund to be charged for employee salaries. Of the 211 employment documents we reviewed in employees' personnel files, 187 (89 percent) did not identify the program or fund to be charged for the expenditure. We also found that the district issued payroll warrants without

evidence to support the payment. Finally, the district has not adequately separated duties related to payroll: employees who process payroll documents have also handled payroll warrants. As a result of these inadequate controls, the district has had limited assurance that only authorized employees are included on the district's payroll and that all personnel or payroll transactions are legitimate.

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#### The District Needs To Improve Its Control Over Its Revolving Fund

The district has not adequately controlled payments made from its revolving fund. Specifically, from July 1, 1987, through December 31, 1989, the district made payments in violation of the California Education Code, the district's own policies or regulations, and the employment agreements of the superintendent's contract. In addition, the district has not followed or established some revolving fund and travel policies or regulations to ensure that disbursements are in the best interest of the district. Also, because the district has not ensured that travel claims are filed promptly, it has jeopardized the collection of \$12,558 in cash advances.

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#### The District Has Not Followed All State Regulations Governing State Funds

The district has not followed all the requirements related to the expenditure of state funds. Specifically, the district violated state regulations by not using some of its equipment purchased with state funds for the intended program purpose of the equipment. As a result, students may not be receiving the benefits of the equipment purchased for their program. Also, the district charged unallowable expenditures to three state-funded programs. It charged \$392,007 in unallowable expenditures to the deferred maintenance program, \$324,907 to the lottery fund, and \$20,171 to the mentor teacher program.



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## RECOMMENDATIONS

To strengthen its controls over equipment, purchasing, cafeteria operations, personnel and payroll activities, and the revolving fund, the district needs to improve its management practices. Specifically, the district should take the following actions:

- Continue its present effort to establish the inventory records that it needs to properly account for its equipment;
- Conduct a physical inventory of its fixed assets at least annually;
- Continue its present effort of establishing detailed policies and procedures to improve control over purchasing;
- To maximize interest earnings, require that cafeteria funds be deposited with the San Diego County treasurer rather than with commercial banks;
- Separate the duties of food service employees to establish an environment of good internal control over cafeteria operations;
- Require all hiring documents to be signed by the personnel department and submitted to the payroll unit, indicating the program or fund to be charged for the employee's salary expense;
- Require every employee hired to be individually named before the board of trustees;
- Establish a policy to ensure an adequate separation of duties between payroll processing and receipt of payroll warrants;
- Ensure that revolving fund transactions are appropriate by following regulations established in the California Education Code and pertinent district policies and regulations; and

- Ensure that it expends state funds received from the deferred maintenance program, the lottery fund, and the mentor teacher program in accordance with state regulations.

To ensure that local educational agencies are expending lottery funds as the Legislature intends, the Legislature should consider the following:

- Clarify the definition of "noninstructional purpose," as cited in the California Government Code, Section 8880.5, by using the definition in the opinion of the Legislative Counsel of California. This definition states that noninstructional purpose will be construed to prohibit the expenditure of lottery revenues for any purpose that is as peripheral to a program or activity of teaching as the expressly prohibited purposes of real property acquisition, construction of facilities, and research.

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#### AGENCY COMMENTS

The district agrees with many of our recommendations and believes many of the recommendations confirm much of what the district had already determined to be areas of concern. Although the district disagrees with some areas of our report, we have analyzed the district's response and have concluded that it contains no evidence that would cause us to change either our conclusions or the facts in our report.

## INTRODUCTION

The Sweetwater Union High School District (district) is located to the south of metropolitan San Diego and includes the communities of National City, Chula Vista, Bonita, Imperial Beach, San Ysidro, and South San Diego. The district has the largest enrollment of the State's secondary districts and provides for the educational needs of approximately 27,000 students in grades 7 through 12 and approximately 45,000 students in the adult education program. Its 22 schools comprise 8 senior high schools, 7 junior high schools, 2 middle schools, a continuation high school, a vocational center, and 3 adult education centers. With approximately 2,600 employees, the district is a major employer in the south bay area of San Diego County. A board of trustees, comprising five board members and a student representative, oversees the district's activities.

According to the superintendent, in October of 1988, the president of the board called to inform him that a member of the community was alleging that widespread thefts of district property were occurring and that district employees were receiving kickbacks from vendors. Based on the trustee's information, the superintendent contacted the Chula Vista Police Department, informed them of the allegations, and requested an investigation. According to the superintendent, the police did not obtain evidence of criminal activity and allowed the district attorney to further investigate the allegations.

At approximately the same time, according to the superintendent, he requested a district employee to inventory certain district equipment. This 1988 inventory identified approximately \$386,000 of equipment that could not be located. In December 1989, the district hired Automated Dimensions, Inc. (ADI), to tag all computers and peripherals owned by the district. The district indicates that it found all but 15 items, worth approximately \$14,700, that were originally not found during the 1988 inventory performed by the district employee.

The board of trustees also requested the accounting firm of Coopers & Lybrand to review transactions related to lottery revenues received and expenditures made from approximately July 1, 1986, through April 30, 1989. This report, issued on July 27, 1989, disclosed significant internal control weaknesses over budgeting, purchasing, and receiving. See Appendix A for the internal control weaknesses identified by Coopers & Lybrand.

At a district board meeting on October 12, 1989, a former employee of the district alleged that he had received information from other employees and a private investigator of criminal activity at the district. In his statement, he suggested that the board take action concerning these allegations. Soon after the former employee's allegations were made, the grand jury began its investigation. The grand jury issued its report on June 12, 1990. In this report, the

grand jury states that, although the allegations it received of criminal misconduct were unsubstantiated, its investigation raised concerns over the district's accountability, competence, leadership, and responsibility.

#### SCOPE AND METHODOLOGY

The purpose of our audit was to review management practices at the district. We accomplished our objective by reviewing the district's personnel and payroll transactions, the purchasing department's procurement practices, the food services department's transactions, the district's procedures in maintaining the general fixed asset account group, transactions involving the district's revolving fund and other bank accounts outside the county treasurer's control, and allegations received by our office. Our review did not include transactions of the associated student bodies unless our office received a specific allegation relating to a district transaction involving an associated student body.

Our review included interviewing knowledgeable state, San Diego County, and district employees. We limited our review of district records and transactions to the period of July 1, 1987, through December 31, 1989. However, if our office received an allegation that pertained to a period before July 1, 1987, or after December 31, 1989, we did attempt to obtain evidence to support the allegation. To determine whether the district's expenditures were appropriate, we

reviewed the California Education Code, Government Code, and Public Contracts Code; the Code of Federal Regulations; the San Diego County superintendent of schools' Business Services Guide; applications for funding categorical programs; and the district's board policies and regulations.<sup>1</sup> Furthermore, we reviewed pertinent records held by the San Diego County district attorney, the Chula Vista Police Department, and other law enforcement agencies that operate within the boundaries of the district.

According to financial statements audited by Hoffman & Company, CPAs, the district has not maintained a general fixed asset account group since at least fiscal year 1982-83. This group is a listing of all district-owned property. The California Education Code, Section 35168, requires that the district's board maintain a historical inventory of equipment. However, since the district does not have a complete list at this time, we were unable to test this list for completeness. The district does maintain lists of vehicles, maintenance equipment, lawn and garden equipment, and cafeteria equipment owned by the district. It also recently hired ADI to inventory its computers and peripherals. We selected a few items from each list and determined the items' existence through observation. In addition, we selected certain items observed on school property and

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<sup>1</sup>Categorical programs are specifically established to benefit students with special needs and are funded with state and federal money.

traced these back to district records to determine the completeness of the district's lists.

We reviewed the reconciliation of the district's list of equipment purchased with categorical funds and a sample of equipment receiving documents with the list ADI compiled of computers and other electronic equipment. The list of categorical equipment includes approximately 3,000 items of computer and other electronic equipment that ADI should have found. The list compiled by ADI includes approximately 13,000 items of computer and other electronic equipment that were purchased from all funding sources. Both of these lists provided by the district contained inaccuracies and were incomplete.

Because the district did not provide us with a comprehensive, auditable list of computer equipment, we could not perform audit procedures that would have allowed us to conclude that these lists were complete or that the lists accurately reflect the number of items the district should have located. Our audit procedures were limited to finding discrepancies between the list of 3,000 items and the related 3,000 items in the list of 13,000 items. Since we were unable to perform meaningful procedures on the remaining approximately 10,000 items that did not relate to categorical funds, our test results only relate to the approximately 3,000 items found by ADI and the results of our sample of receiving documents. Furthermore, because the district's equipment lists did not contain complete valuation information, we could not determine the precise value of equipment the district has not

located. As a result, we estimated the value of the equipment not located based on replacement cost, historical cost, or cost information that the district included on its equipment list.

To determine the purchasing department's adherence to procurement policies and regulations, we judgmentally selected 45 purchases from vendors whom the district paid more than \$100,000 in either fiscal year 1987-88 or 1988-89 or from July 1, 1989, through December 31, 1989. We randomly selected another 45 purchases from all the vendors the district paid from July 1, 1987, through December 31, 1989. We examined all purchases selected to determine whether the purchasing department had properly authorized them, had followed the required contracting procedures, and had obtained evidence of goods or services received before payment. Further, we determined whether the purchasing department recorded the equipment it purchased in the district's inventory records.

We reviewed the food services department's procurement and inventory accounting to determine whether it had satisfactory internal controls and followed district policies and regulations. We also observed the daily accounting functions and cash collection procedures employed by the food services department and cafeteria employees. In addition, we judgmentally selected 35 purchases and randomly selected another 30 purchases made by the food services department from July 1, 1987, through December 31, 1989. We examined the purchases selected to determine whether the food services department had properly



authorized them, had followed the required contracting procedures, and had obtained evidence of goods or services received before payment. In addition, we determined whether the food services department had accurately accounted for its food inventory and had recorded the equipment it purchased in the district's inventory records.

For our testing of the personnel department, we reviewed the personnel records of 211 employees to determine whether they had received prior authorization from the personnel department and approval from the board of trustees for their hiring. In addition, to determine whether the district's payroll department issued payroll warrants correctly and whether employee accrual records were properly updated, we selected 25 individuals not included among the 211 identified above and tested approximately 170 payroll warrants issued from July 1, 1987, through December 31, 1989. For each payroll warrant, we determined whether the payroll department used the proper pay rate in computing the gross pay, the signed timesheets supported the time employees claimed, and approved sick leave and vacation leave reports or other documents supported accrual records. We were unable to verify the accuracy and appropriateness of vacation leaves for any district employees from July 1, 1987, through December 31, 1987, because the district did not retain vacation records for this period.

Since funds deposited in commercial bank accounts are not subject to the same controls as funds deposited with the San Diego County treasurer, we reviewed the district's revolving fund and analyzed certain bank accounts outside the San Diego County treasurer's control.

Finally, our office has received allegations, and we have identified through our testing, that the district does not use certain restricted funds and certain equipment in accordance with state requirements. We requested the Office of Legislative Counsel, the California Department of Education, and the Department of General Services' Office of Local Assistance to provide us with their opinions concerning the appropriateness of certain district expenditures.

## AUDIT RESULTS

### I

#### THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER EQUIPMENT

Contrary to the California Education Code and its own policies and regulations, the Sweetwater Union High School District (district) has not maintained adequate control over its property. Specifically, the district has not maintained the records it needs to locate all of its equipment. In addition, the district has not adequately monitored and documented transfers of equipment. As a result of these weaknesses, the district cannot locate some of its equipment and has increased its vulnerability to losses or misuse of equipment.

#### THE DISTRICT HAS NOT MAINTAINED ADEQUATE CONTROL OVER PROPERTY

The California Education Code, Section 35168, requires the governing board of the district to maintain a historical inventory of equipment. Also, the California Department of Education's Fiscal Management Advisory, 89-11, recommends that the district take a physical inventory of its fixed assets at least annually to determine that all items listed in the district's records actually exist. However, according to the district's former director of purchasing, the district has not taken a complete physical inventory of its fixed assets since a contractor conducted an inventory for the district in

1975, over 15 years ago. Moreover, according to the district's supervisor of purchasing, the district has not maintained a complete listing of all of its equipment. It discontinued maintaining inventory records in approximately 1981.

According to the district's former administrator for business, because the implementation of Proposition 13 reduced funding, in approximately 1981, the district discontinued its contract with the contractor that had been maintaining inventory records for the district. The former administrator also indicated that the district did not have sufficient staffing at that time to maintain inventory records without the assistance of an outside contractor.

As a result of not maintaining proper inventory records of its fixed assets and of not conducting regular physical inventories of equipment, the district has increased its vulnerability to losses of equipment. For example, during December 1989, the district hired Automated Dimensions, Inc. (ADI), to inventory computers and other electronic equipment. After analyzing the results of this inventory, the district could not locate some of its computer equipment. Because it does not know the location of these items, district officials are less likely to promptly detect losses or disappearances of this equipment.

The computer equipment not located during the ADI inventory includes 63 items, valued at approximately \$31,000, that the district had recorded as being physically present during an inventory district employees conducted in 1988. In addition, 24 items of computer and electronic equipment, valued at approximately \$14,800, that district employees could not locate during the 1988 inventory were also not located during the ADI inventory. Another 26 items of computer equipment, valued at approximately \$16,900, were, according to the district's records, apparently stolen or reported as missing before the ADI inventory. Our limited testing also identified 64 items of computer equipment, valued at approximately \$43,600, that the district had purchased before the ADI inventory and that were not located during the ADI inventory. Table 1 summarizes the categories of computer equipment that the district did not locate during the ADI inventory.

**TABLE 1**  
**SUMMARY OF COMPUTER EQUIPMENT**  
**NOT LOCATED DURING ADI INVENTORY**

Item	Categorical-funded Equipment				Total
	Number of Items Located During 1988 Inventory and Not Located During ADI Inventory	Number of Items Not Located During 1988 Inventory and Not Located During ADI Inventory	Number of Items Reported Stolen or Missing Before ADI Inventory	Number of Items Purchased Before ADI Inventory and Not Located During ADI Inventory	
Computers, Radio Shack, TRS-80	8	6	3		17
Computers, Apple IIe	1	2	8	5	16
Computers, Apple IIgs	3		1	3	7
Computers, MacIntosh (Mac Plus, Mac SE, Mac II)	2			11	13
Computer, IBM Model 25				1	1
Printers	8	6	1	7	22
Monitors/receivers/TV sets	18	7	6	12	43
Disk drives	<u>23</u>	<u>3</u>	<u>7</u>	<u>25</u>	<u>58</u>
Total	<u>63</u>	<u>24</u>	<u>26</u>	<u>64</u>	<u>177</u>

In addition to the equipment discussed above, we could not determine whether the district had located 162 other items of computer equipment, valued at approximately \$114,000, because the district did not record the serial numbers for these items. District records indicate that these 162 items were not located during the 1988 inventory; however, because the district's records did not identify these items by serial number, we could not determine if ADI found these items or if the items were still missing at the time of the ADI inventory.

Because of the method the district used to compile the results of the ADI inventory, we have no assurance that ADI located all of the computer equipment that the district purchased in the past several years. When ADI conducted its inventory, it recorded only the computer equipment that ADI could physically locate at the district sites in late 1989. The district then compared the results of the ADI inventory to a listing of equipment the district purchased with categorical funds between January 1980 and September 1988. Because the listing of equipment that the district used to compile the inventory results included only the computer equipment purchased with categorical funds and not all of the computer equipment the district had purchased before the ADI inventory, the district cannot ensure that ADI located all the equipment the district has purchased over the past several years.

To improve the district's accountability over property, the district's purchasing department is, according to the supervisor, currently preparing fixed asset accounting records by researching purchasing documents and other available sources of information. When staff complete these records, the district should be able to compile more accurate inventory results based upon these improved accounting records. In addition, the purchasing department has implemented procedures for adding new items of equipment costing \$200 or more to the property records when the district receives the equipment.

THE DISTRICT HAS NOT PROPERLY  
DOCUMENTED SOME TRANSFERS OF EQUIPMENT

The district has not properly documented or retained documentation of some transfers of equipment. According to the former administrator for business, district procedures required that equipment transfers be documented using an Equipment Transfer or Disposal Request (transfer request) form. Because the district did not follow these procedures, it cannot locate various items of equipment. For example, when Palomar High School discontinued its home economics, business education, and woodshop classes, the district apparently removed certain items of equipment from the school site but did not either properly document or keep records of the transfers. The district has transfer requests on file showing the disposition of business education equipment, home economics equipment, and most of the woodshop equipment that the district removed from Palomar High School. However, the district does not have transfer requests to show the present location of the following equipment: one table saw, a power miter saw, and three sanders that had been at Palomar High School when the woodshop classes were being taught at the school. The district's director of vocational education indicated that the district is not able to locate this equipment.

In addition, the district does not, according to the administrator for planning, have a transfer request or other records indicating that a Willys Jeep was transferred approximately two years



ago to the private property of a district administrator when he agreed to take the vehicle home to repair it for the district. The district's director of transportation, who reports to the administrator for planning, stated that he was not aware of the location of this vehicle.

We also found that the district's administrative staff transferred at least 15 items of woodshop equipment from Sweetwater High School to another district without the required approval of the board of trustees. District policy 3320 requires board approval for all transactions involving the transfer of property between the district and any other entity. In addition, district regulation 3320.1 requires board approval for surplus property disposal. The administrative staff transferred the equipment without board approval because, according to the former administrator for business, he believes that board policy authorized them to handle surplus property. However, this former administrator also stated that the district had not yet identified this equipment as surplus property. Because the board did not approve the transfer of the woodshop equipment to the other district, the best interests of the district may not have been served by this transfer of equipment.

Furthermore, the district did not retain records to show how it disposed of approximately 100 motor vehicles that, according to the director of transportation, the district had apparently leased from local automobile dealers for use in the driver education program. Without records showing how it disposed of these vehicles, the district

cannot demonstrate that it no longer owns all these vehicles. Records at the Department of Motor Vehicles show that the district is still the registered owner of 48 of the vehicles.

### CONCLUSION

Contrary to the California Education Code and its own policies and regulations, the Sweetwater Union High School District has not maintained adequate control over its property. Because the district has not maintained a historical inventory, conducted physical inventories, and monitored transfers of property, the district cannot locate some equipment and has increased its vulnerability to losses or misuse of equipment.

### RECOMMENDATIONS

To safeguard its assets, the Sweetwater Union High School District should take the following actions:

- Continue its present effort to establish the inventory records it needs to properly account for its equipment;
- Continue the present effort of researching procurement documents to ensure that a complete list of equipment has been compiled, and fully reconcile the results of the

Automated Dimensions, Inc., inventory with this list of equipment;

- Conduct an inventory of the equipment that was not included in the scope of the Automated Dimensions, Inc. inventory;
- Conduct a physical inventory of its fixed assets at least annually;
- Continue its present procedures for recording the receipt of new equipment into the inventory data base; and
- Properly supervise and record transfers of property.

## II

### THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER PURCHASING

The Sweetwater Union High School District (district) did not consistently follow required purchasing procedures from July 1, 1987, through December 31, 1989. The district's board of trustees established policies and regulations to ensure that the district's purchasing department offers centralized purchasing services consistent with sound business management principles and budgetary limitations. However, the district did not always comply with procedures governing approval, bidding, and accounting. For example, the district did not ensure that a supervisor properly approved requisitions for 60 (67 percent) of the 90 items we tested for general procurement and for 23 (88 percent) of the 26 items we tested for cafeteria procurement. In addition, the district did not follow proper bidding procedures for 36 (60 percent) of the 60 items we tested for general procurement and for 26 (62 percent) of the 42 items we tested for cafeteria procurement. Also, for 11 (12 percent) of the 90 general procurement items tested and 20 (56 percent) of the 36 cafeteria procurement items tested, the district did not ensure that authorized purchase orders and certified receiving documents supported payments. According to the new purchasing supervisor for general procurement purchasing, who was hired by the district on June 5, 1989, the district is currently in the process of establishing detailed procedures and is enforcing existing policies and regulations that should improve control over purchasing. Our test results show improved compliance in most

general procurement areas for the period July 1, 1989, through December 31, 1989, as compared with the period July 1, 1987, through June 30, 1989.

THE DISTRICT HAS NOT ENSURED  
THAT ALL PURCHASES ARE APPROVED

District regulation 3320.1 requires that all requests for services, equipment, and supplies originate with a school or department and that the request be approved by the school principal, department head, or other authorized personnel before the purchasing department processes it. Also, good internal control dictates that the employee requesting goods and services be different from the employee authorizing the purchase.

During our testing, we determined that the district did not ensure that the employee requesting goods or services was different from the employee authorizing the purchase for 60 (67 percent) of the 90 items tested for general procurement and for 23 (88 percent) of 26 items tested for cafeteria procurement. For example, we reviewed 16 purchase requests, totaling \$174,675, from Aardvark Landscaping Company during fiscal year 1988-89. The same employee, the director of operations, prepared and authorized seven of these purchases, totaling \$60,400. In addition, seven purchases had no evidence of secondary approval.

Also, according to the purchasing department supervisor, purchasing department procedures require that the financial services department review and approve expenditures to determine that budget funding is available for the purchase. However, during our testing of general procurement, we found that the district did not obtain approval from the financial services department for 6 (7 percent) of the 90 items tested. For instance, the district paid Eastman, Inc., \$12,653 without evidence that the financial services department had reviewed and approved the expenditure to ensure that budgeted funds were available and that the expenditure was being correctly charged. In its review of district lottery expenditures for the period from July 1, 1986, through April 30, 1989, the accounting firm of Coopers & Lybrand stated that the district had significant control weaknesses over budgeting, which caused some budgeted expenditures to exceed those authorized by the board of trustees. The problem identified by Coopers & Lybrand could be corrected if the financial services department would review and approve expenditures before incurring them to ensure that budgeted funds are available and that expenditures are being correctly charged.

District policy 3320 states that the board must approve or ratify all purchase orders, contracts, and agreements. For 9 (10 percent) of the 90 items we tested in general procurement and for 28 (68 percent) of the 41 items tested in cafeteria procurement, the district did not ensure that the board of trustees had approved all purchase orders and contracts the district issued. For example, the

district did not obtain board approval for any of the cafeteria purchase orders that we reviewed. According to the board of trustees, the cafeteria purchase orders should be included with district purchase orders when district purchase orders are sent to the board for approval; however, they were not because of an administrative oversight.

Contrary to good internal control practices, the district's food service department did not ensure that all payments to food service employees were properly approved. This occurred for 20 (80 percent) of the 25 items we tested. For example, we identified one instance when there was no evidence of supervisorial approval for a payment to the food services director, who told us that she was reimbursed for the lunches of other cafeteria managers at a restaurant.

When it does not obtain approval for all payments, the district cannot ensure that purchases are for the benefit of the district, that funds are available, or that expenditures are proper.

Shortly after the district hired the new purchasing supervisor for general procurement purchasing, our testing indicated that, in the area of requisition approvals, instances of noncompliance were reduced from 44 of 60 to 16 of 30; in the area of budget coding approvals, there was no reduction of noncompliance; and in the area of purchase order and contract approvals, noncompliance was reduced from 9 of 60 to zero of 30. These figures are applicable only to the purchasing department and not to the food services department.

THE DISTRICT HAS NOT ALWAYS  
FOLLOWED PROPER BIDDING PROCEDURES

The Public Contracts Code, Section 20111, requires formal competitive bidding for expenditures greater than \$15,000 for work to be done and greater than \$21,000 for the purchase of equipment and materials. Also, district regulation 3320.1, which is more restrictive than the Public Contracts Code, requires formal competitive bidding for expenditures greater than \$12,000 for work to be done and greater than \$16,000 for equipment and materials. Additionally, district regulation 3320.1 requires three informal bid sources for expenditures greater than \$5,000 for labor and related materials or greater than \$8,000 for supplies, equipment, and services.

Competitive Bidding Not Documented

We determined that for 36 (60 percent) of the 60 general procurement items we tested and for 26 (62 percent) of the 42 cafeteria procurement items tested, the district did not always maintain documentation supporting that it had obtained informal quotes or formal competitive bids for services, as required by district regulation.

For example, the district did not obtain informal quotes or competitive bids for Aardvark Landscaping Services. For 11 of the 17 purchase orders tested that exceeded \$8,000, 7 exceeded \$12,000 and one exceeded \$15,000. Initially, all 7 purchase orders exceeding \$12,000



were slightly below the \$15,000 threshold set forth in the Public Contracts Code for work to be done; therefore, they did not require formal bidding according to state law, although district regulations require formal bidding for work to be done over \$12,000. These 7 purchase orders were for \$14,915, \$14,895, \$14,890, \$14,885, \$14,590, \$14,450, and \$14,395. However, the \$14,395 purchase order was later increased to \$18,295 with the approval of the requestor, the director of operations, yet the district did not acquire formal competitive bids. Thus, this purchase violated competitive bidding requirements specified in both the Public Contracts Code and the district's regulations. The buyer for 16 of the 17 purchases stated that she did not acquire formal competitive bids or obtain informal quotes for the services provided by Aardvark Landscaping Services or any other vendor when she was instructed to process purchase requests using those vendors identified by the administrators requesting the services.

Contract Not Awarded to  
Lowest Responsible Bidder

District regulation 3320.1 states that bids should be awarded to the lowest responsible bidder; however, the business manager or purchasing supervisor can recommend that the lowest bid is not responsible or is nonresponsive when the bid does not meet required specifications. Further, the regulation states that the board of trustees, acting on recommendation from the business manager or purchasing supervisor, must determine the final contract award.

However, we determined that the district did not always award bids to the lowest responsible bidder. For example, the district issued a request for proposals during fiscal year 1988-89 for the procurement of a telephone system. The request for proposals required the telephone system to meet the specifications of the AT&T Spirit system. It also stated that the contract would be awarded to the lowest responsible bidder. According to a district analysis of this purchase, which was submitted to the board, district personnel reviewed the three lowest responsible bids--from Dial One, Intertel, and AT&T. Although Intertel's bid was \$17,990 higher than the lower bid received from Dial One, the district recommended that the board approve the purchase of the Intertel system. The administrator of planning stated that he and his staff had determined that Dial One's bid was nonresponsive because it did not meet the bid specifications. However, the district had previously determined that Dial One was one of three responsible bidders. Thus, if Dial One was not a responsible bidder, district personnel misled the board by informing it that there were three responsible bidders. In contrast, if Dial One was a responsible bidder, then the district did not accept the lowest responsible bid.

#### Sole Source Vendors Not Approved

We also found that the district did not always have evidence that it had received required approval to classify certain vendors as the only source of designated products or services. When the district classifies a vendor as sole source, indicating that a purchase is

exempt from competitive bidding, the San Diego County Office of Education's Commercial Claims Warrant Manual requires that the county counsel or the district's private counsel review and approve the request for sole source status.

The district lacked evidence of approval for all five of the sole source purchases we reviewed. For example, it paid Apple Computers, Inc., \$574,715 for computer components, peripherals, and related supplies from July 1, 1987, through December 31, 1989. The district did not competitively bid these purchases and did not obtain approval to classify Apple Computers, Inc., as a sole source vendor from either the county counsel or the district's private counsel. According to a buyer in the purchasing department, the district classified Apple Computers, Inc., as a sole source vendor based on a November 21, 1985, county counsel opinion issued to another school district. However, this opinion concludes that, if Apple computer products are the only equipment the district can utilize and if Apple Computers, Inc., is the only supplier of these products, then a sole source designation would appear to be justified.

Based on the county counsel's conclusion, we believe that the district was not justified in using Apple Computers, Inc., as a sole source vendor because, while the district's equipment may be compatible only with Apple products, the district could have obtained competitive bids for these products from other suppliers of Apple equipment.

As a result of not following prescribed bidding procedures, the district cannot ensure that its purchases were not made without favor or prejudice. Also, the district cannot ensure that it purchased the best product at the lowest price.

Shortly after the district hired the new purchasing supervisor for general procurement purchasing, our testing indicated that, in the area of obtaining competitive bids, noncompliance was reduced from 28 of 40 to 8 of 20; in the area of selecting the lowest bid received, noncompliance was reduced from 31 of 40 to 7 of 20; and in the area of proper sole source classification, there was no reduction of noncompliance. The above figures are applicable only to the purchasing department and not to the food services department.

THE DISTRICT HAS NOT ALWAYS  
FOLLOWED PROPER ACCOUNTING PROCEDURES

The San Diego County Business Services Guide requires each vendor payment to be supported by a purchase order and a certified receiving document. Moreover, district policy 3320 states that a purchase made in the name of the district without an authorized purchase order shall be considered an obligation of the person making the transaction and not an obligation of the district.

However, for 11 (12 percent) of the 90 items we tested for general procurement and for 20 (56 percent) of the 36 items tested for cafeteria procurement, the district did not always ensure that vendor

payments were supported by a purchase order and a certified receiving document that verified items and quantities purchased. For example, in August 1988, the district paid Digital Equipment Corporation \$36,800, without a board-approved purchase order, for the services of a systems engineer. The director of management information systems had authorized the accounting department to pay these services and to charge the expenditure against a particular purchase order, which the district had issued for a different purchase. We also determined that the district made payments of \$69,116 to food service vendors without any certification that the goods or services had been received. Specifically, food service employees had not signed the receiving document indicating receipt of the goods or services.

#### Discounts Not Taken

The Business Services Guide requires that the district process payments to vendors promptly to take advantage of available discounts. We determined that the district did not take advantage of available vendor discounts for 2 (15 percent) of the 13 items tested during the period from July 1, 1987, through December 31, 1989. For example, according to the buyer in the purchasing department, during fiscal years 1987-88 and 1988-89, Xerox Corporation offered a discount of \$6,000 for each Xerox 1090 copier rented. According to the accounting supervisor, the previous purchasing supervisor, who was also responsible for monitoring the use of the discounts, allowed the schools to determine if they wanted to use the entire discount up front

or spread it out over the rental period. The district rented a copier during fiscal year 1988-89 but did not ensure that the school took advantage of the \$4,327 remaining from the initial \$6,000 discount, which expired when the copier was returned in January of 1989. According to the accounting supervisor, the purchasing supervisor moved to another school district and during this transition, the paperwork was misplaced and the remaining discount was never taken.

#### Payments Not in Compliance With Authorized Contracts

The Business Services Guide also requires expenditures to be issued in compliance with purchase agreements. However, the district did not always ensure that payments to vendors did not exceed authorized purchase order and contract amounts. This occurred for 6 (23 percent) of the 26 general procurement items tested and for 14 (38 percent) of the 37 cafeteria procurement items tested. For example, during our testing of cash disbursements from the cafeteria fund, we identified payments totaling approximately \$635,000 that were issued exceeding the amounts authorized by the applicable purchase order or contract. In one instance, the food services department made purchases of approximately \$268,000 from July 1, 1987, through June 30, 1988, from San Diego Food Services Center, yet the purchase order with this vendor only authorized purchases of \$20,000.

According to the director of food services, the food services department does not monitor expenditures as they relate to individual purchase orders or contracts. Further, the director of food services stated that she was not aware that payments exceeding the purchase order or contract amounts were not allowable. However, according to a letter received from three of five members of the board of trustees concerning a similar situation, it must authorize additional expenditures that exceed approved initial purchase order amounts.

The district also did not ensure that payments issued to vendors were in compliance with authorized contracts and purchase orders for 4 (12 percent) of the 32 general procurement items tested and for 3 (8 percent) of the 36 cafeteria procurement items tested. For example, the district paid to School Research Services Corporation and its subsidiary, Peopleware Systems International, for services not included in the terms of the contract and for services received after the expiration dates established in the contract. The district paid the \$87,171 after the contract had expired while it was negotiating a new contract with Peopleware Systems International, and after expiration dates included in its subsequent new contract. Also, the district paid \$221,083 for services that were not specifically requested in the contracts. For instance, the contract provided for test scoring services through the summer of 1988; however, the district paid Peopleware Systems International for additional test scoring services during the winter of 1988 and during the spring of 1989.

Without following proper accounting procedures, the district cannot always ensure that it has received all goods and services it pays for, that it pays no more than necessary, and that it pays only the authorized amount for authorized services.

Shortly after the district hired the new purchasing supervisor for general procurement purchases, our testing indicates that, in the area of reconciling purchase orders with invoices and certified receiving documents, noncompliance was reduced from 8 of 60 to 3 of 30; in the area of taking available discounts, noncompliance was reduced from 2 of 11 to zero of 2; and in the area of ensuring that payments are issued in compliance with purchase orders or contracts, noncompliance was reduced from 4 of 32 to zero of 14.

#### CONCLUSION

Contrary to its own policies, regulations, and procedures, and those of the county, the Sweetwater Union High School District did not ensure that all purchases were properly approved, did not ensure that proper bidding procedures were always followed, and did not adhere to proper accounting procedures in some cases. As a result of these practices, purchases may not always be in the best interest of the district.



## RECOMMENDATIONS

To ensure that all purchases are approved, bidding procedures are followed, and accounting procedures adhered to, the Sweetwater Union High School District should take the following actions:

- Continue its present effort of establishing detailed policies and procedures to improve control of the purchasing function;
- Require that an employee other than the requestor approve requisitions;
- Require the financial services division to review and approve all purchase orders to verify that funding is available and expenditures are correctly charged;
- Require that the board be provided a listing of purchase orders and contracts that states the vendor, product, and price so the board has a basis to approve the purchase;
- Require a supervisor's written approval for reimbursements to employees;

- Require that district buyers obtain three bid sources when making a purchase that exceeds amounts designated in district policy;
- Select the lowest responsible bidder or provide adequate documentation supporting that a bidder is nonresponsive when selecting a higher bidder;
- Classify vendors as sole source only upon the written opinion of county counsel or private counsel;
- Require valid purchase orders and certified receiving documents before paying vendors;
- Take available vendor discounts;
- Ensure payments do not exceed authorized amounts; and
- Ensure payments are issued only in compliance with valid contracts and purchase orders.

### III

#### **THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER CAFETERIA OPERATIONS**

The Sweetwater Union High School District (district) needs to improve its controls over cafeteria operations. The district has not followed good management practices to ensure that interest earnings on district funds are maximized, resulting in the loss of approximately \$140,000 in interest it could have earned on cafeteria funds over two and one-half years. In addition, the district has lacked adequate control over cafeteria cash. For example, it has not used cash registers to control cash, nor has it adequately limited access to cash and blank checks. Moreover, contrary to good internal control practices, the district has not ensured an adequate separation of duties related to cash receipts, cash disbursements, and purchasing in the food services department. Poor internal controls could lead to theft and fraud. Finally, the district did not always retain documents to support claims for reimbursement from federal programs. If the district does not retain these documents, the California Department of Education may consider these claims as overpayments and seek recovery.

THE DISTRICT LOST INTEREST IT COULD  
HAVE EARNED ON CAFETERIA FUNDS

The district lost approximately \$140,000 in interest earnings from July 1, 1987, through December 31, 1989, because it deposited cafeteria funds with a commercial bank rather than with the San Diego County treasurer.

The district's food services department has maintained two checking accounts with commercial banks, the general cafeteria account and the cafeteria replacement account. We reviewed the bank statements related to both checking accounts and calculated an average monthly balance of over \$1 million in the general cafeteria account and over \$17,000 in the cafeteria replacement account. These funds earned interest of only 4 percent annually while on deposit with these commercial banks from July 1, 1987, through December 31, 1989. If the district had deposited the funds with the San Diego County treasurer, the funds would have earned between 8.69 percent and 9.75 percent annually for the same period.

The director of food services believed that, if the district had deposited cafeteria funds with the San Diego County treasurer, the treasurer would not have credited the interest earnings to the cafeteria fund but would have credited the earnings to the district's general fund. However, the Business Services Guide states that the interest earned on child nutrition funds is returned to the food

services account for program use. Also, according to the California Government Code, Section 53647, interest shall be paid to the fund containing the principal on which the interest is accrued if the agency's governing body so directs. Finally, good management practices dictate that the district should ensure that interest earnings are maximized on all district funds.

THE DISTRICT'S CONTROL OVER  
CAFETERIA CASH HAS BEEN INADEQUATE

In the food services department, cash registers have not been used to control cash, bank deposits have not been prepared in accordance with food services procedures, employees who have access to cash have not been adequately bonded, and access to cash and blank checks have not been adequately limited.

The food services section in the Business Services Guide states that the cash register is considered the basic tool for controlling cafeteria cash receipts. The Business Services Guide also states that minimum criteria for a cash register would include a locked-in tape, a total visible to the customer, and a sufficient number of symbols for identifying the types of servings. Using a cash register, a cashier would count the cash received, prepare the bank deposit slip, and send a copy of the bank deposit slip to accounting. Someone other than the cashier should take the locked recording tape from the cash register and send the tape to accounting. Employees in accounting who do not handle cash should reconcile the sales according

to the tapes with the bank deposit slips. Any differences would be entered in the accounting records as cash over and short. Any losses could be summarized on a regular basis and submitted to the board of trustees for review and further investigation if necessary. The cash register tape would also provide the number of each type of reimbursable meal served and a basic record to support claims made under federal and state child nutrition programs.

Although the Business Services Guide recommends that the district use cash registers for cafeteria sales, cash registers have not been used at 16 of the 17 cafeteria sites, according to the director of food services. We visited 7 of the 17 cafeteria sites and found that cash boxes and cash trays were used at 6 of the sites. Cash registers along with cash boxes were being used at the other location we visited.

Because the district has allowed the use of cash boxes and cash trays rather than cash registers for cafeteria sales, the district has not had a sufficient system to control or detect thefts of cash. Further, the district has been unable to reconcile daily sales with daily cash receipts. Moreover, since cafeteria managers handle cash and record sales, one of the cafeteria managers could remove cash receipts from the cash boxes or cash trays without detection.

According to the director of food services, food service procedures require that two employees count all cash receipts and sign

the deposit slip. However, we found that 9 of the 12 deposit slips we reviewed had only one signature. If two employees do not sign deposit slips, one of the cafeteria managers could divert cash for personal use, not including it in the daily sales figure and bank deposit, and the district would have no means of detecting the theft.

The Business Services Guide also requires that all employees who handle cafeteria funds be bonded. Although the district insures each employee for \$100,000, this is not adequate coverage for the general cafeteria checking account. Two food services employees could have withdrawn funds from a bank account with an average balance of approximately \$1 million during the period we reviewed. If an embezzlement were to occur, the district would be uninsured for any amount exceeding \$100,000.

Finally, good internal control dictates that unused checks and undeposited cash receipts be adequately safeguarded. However, we observed that unused checks for cafeteria bank accounts and daily cash receipts from cafeteria sales have been kept in a safe to which all food services employees in the district office have had access, including those employees who maintain the accounting records. As a result, a food services employee could divert cash for personal use and conceal the theft in the accounting records. Additionally, any employee having access to the key to the safe could take blank checks or cash receipts.

According to the director of food services, the food service department cannot purchase cash registers or adequately bond employees because of limited cafeteria funds. However, the additional interest the district could earn by depositing its funds with the San Diego County treasurer could be used to purchase cash registers if the district determined this to be a priority issue. According to the director, food services employees have been reluctant to use cash registers when they have been provided in the past. However, the district should not allow employee preferences to override good management practices.

THE DISTRICT'S FOOD SERVICES DEPARTMENT  
HAS NOT ADEQUATELY SEPARATED DUTIES IN  
ITS ACCOUNTING OPERATIONS

Good internal control requires an adequate segregation of incompatible duties. However, in the food services department, the district has not ensured an adequate separation of duties related to cash receipts, cash disbursements, and purchasing. As a result, cash and other assets are at risk of misappropriation.

Good internal control requires that employees who have access to cash receipts not also maintain accounting records. Specifically, those who handle cash receipts and make cash deposits should not also maintain the general ledger. However, according to one food services employee and based on evidence obtained through our testing, this employee has performed all those duties. We identified one instance



when this food services employee, responsible for recording cash receipts in the general ledger, received cash receipts from the cafeteria sites and made the deposit. Moreover, the same food services employee has also been responsible for receiving and depositing warrants from the California Department of Education and for recording these warrants in the general ledger.

Without adequate separation of these duties, a food services employee could divert cash for personal use and conceal the theft in the accounting records. For example, cash could be removed from the daily cash receipts and the deposit slip could be changed to conceal the theft.

Good internal control dictates that the following duties related to cash disbursements be performed by separate employees: processing invoices, posting to registers and ledgers, approving disbursements, and signing checks. Moreover, the employee responsible for reconciling bank accounts should not also be responsible for cash receipts and disbursement duties. However, one food services employee has performed all of these duties. According to this food services employee, she has been responsible for posting accounts payable to the register, processing invoices, approving invoices for payment, maintaining the general ledger, and reconciling bank accounts. We observed this employee making entries to the cash disbursements register although she also prepared checks and machine signed them without anyone's review.

Without adequate separation of cash disbursement duties, a food services employee has the opportunity to conceal an embezzlement. A check could be written and not recorded in the cash disbursement register; later, the theft could be concealed when the bank accounts are reconciled.

Good internal control also requires that different employees perform the following duties related to purchasing: ordering goods or services from vendors, receiving goods or services, and approving disbursements. However, in some cases, the director of food services has performed two of these three duties for the same transaction. For example, at times, the director of food services has ordered goods or services from vendors and has signed for the receipt of these goods and services. According to the director, both she and the other food services employee have been responsible for receiving goods in the absence of employees who are normally assigned receiving duties.

Without adequate separation of purchasing duties, a food services employee has the opportunity to conceal a misappropriation of district funds. For example, a food services employee could order goods, accept delivery of the goods, divert them for personal use, and then submit the certified receiving document for payment.

The employees described above have incompatible duties primarily because the district has centralized many functions related to cafeteria operations in the food services department. The district could have separated some of these functions by having an employee outside the food services department reconcile the bank accounts. Another employee outside the food services department could have been responsible for signing checks. Further, the district's purchasing department could have done the ordering of goods and services for the food services department.

THE DISTRICT COULD NOT LOCATE SUPPORT FOR  
SOME REIMBURSEMENTS FROM FEDERAL PROGRAMS

The Code of Federal Regulations, Title 7, Sections 210.15(b) and 220.9(a), requires that, to participate in the School Breakfast Program and the National School Lunch Program, a facility must maintain records to demonstrate compliance with program requirements. The Code of Federal Regulations, Title 7, Sections 210.9(b) and 220.7(e), also requires that these records be retained for three years after the date of the final reimbursement claim for the pertinent fiscal year.

During our testing of cash receipts for the period from July 1, 1987, through December 31, 1989, we identified that, for four of the ten claims for reimbursement tested, the district could not locate the daily log sheets where meals served are recorded. Specifically, the district could not provide daily log sheets for

the specific day we reviewed in November 1987, January 1988, September 1988, and July 1989. The food services department uses these daily log sheets to prepare the daily sales reports. It uses the daily sales reports to prepare its monthly claim for reimbursement submitted to the California Department of Education.

According to the director of food services, the daily log sheets could not be found because cafeteria sites have not always forwarded all of the daily log sheets to the food services' district office as requested.

Without daily log sheets, the district could not support the validity of its claims for reimbursement from the federal child nutrition programs. Moreover, failure to retain documents required for audit purposes could result in the California Department of Education taking fiscal action against the district. Fiscal action could include, but is not limited to, the recovery of overpayments made to the district.

#### CONCLUSION

The Sweetwater Union High School District has not adequately controlled its cafeteria operations. Specifically, because the district has not followed good management practices to ensure that interest earnings are maximized on district funds, the district lost interest it could have earned on cafeteria

funds. In addition, the district has not adequately controlled its cafeteria cash. Consequently, the district may have been subject to theft. Moreover, contrary to good internal control, the district has not adequately separated duties in the food services division related to cash receipts, cash disbursements, and purchasing. As a result, a cafeteria employee could both perform and conceal a fraudulent act. Furthermore, the district could not always support claims for reimbursement from federal programs. Specifically, the district could not always locate the daily log sheets that represent the record of meals served under school nutrition programs. Failure to retain these documents could result in the California Department of Education taking fiscal actions against the district.

#### RECOMMENDATIONS

To adequately manage and protect its assets, the Sweetwater Union High School District should take the following actions:

- Require that cafeteria funds be deposited with the San Diego County treasurer rather than with commercial banks to maximize interest earnings;
- Purchase cash registers or an acceptable alternative for use at cafeteria sites to improve control over cash

receipts and to facilitate the recording of meals served under the school nutrition programs. The district should also ensure that no one employee has access to both the cash and the detail tape of daily transactions;

- Adhere to its own procedures by ensuring that at least two employees count cash receipts from cafeteria sales and sign the deposit slips;
- Ensure that employees having access to cash are adequately bonded;
- Improve its control over the cash receipts and blank check stock by limiting the number of employees who have access to the safe;
- Separate the duties of employees in the food services department so that no one person has access to cash receipts and accounting records;
- Ensure that no one person in the food services department is responsible for performing more than one of the following duties: processing invoices, posting to registers and ledgers, approving disbursements, signing checks, and reconciling bank accounts;

- Ensure that separate employees perform the following duties: ordering goods and services from vendors, receiving goods and services, and approving disbursements;
- Ensure that all daily log sheets are received from the cafeteria sites at the food services' district office; and
- Retain all daily log sheets for time periods required by federal regulations and for audit purposes.

#### IV

#### **THE SWEETWATER UNION HIGH SCHOOL DISTRICT NEEDS TO IMPROVE ITS CONTROL OVER PERSONNEL AND PAYROLL ACTIVITIES**

The Sweetwater Union High School District (district) has not always adequately controlled its personnel and payroll activities. In our review of district personnel files, we could not find any evidence that the personnel department has always authorized and the board of trustees has always approved the initial hiring of employees. In addition, the personnel department has not always indicated the program or fund to be charged for employee salaries. Of the 211 employment documents we reviewed in employees' personnel files, 187 (89 percent) did not contain identification of the program or fund to be charged for the expenditure. We also found that the district issued payroll warrants without evidence of proper certification. Finally, the district has not adequately separated duties related to payroll: employees who process payroll documents have also handled payroll warrants. As a result of these inadequate controls, the district has limited assurance that only authorized employees are included on the district's payroll and that all personnel or payroll transactions are legitimate.



THE DISTRICT'S PERSONNEL DEPARTMENT  
HAS NOT ADEQUATELY DOCUMENTED  
AUTHORIZATIONS, APPROVALS, AND  
FUNDING SOURCES FOR SALARIES

Good internal control dictates that all hirings be authorized and approved and that procedures be in place to ensure that all payroll expenditures are charged to the correct program or fund. However, we identified that the district has sometimes hired employees without documented authorization by the personnel department, without required board approval, and without indication of the program or fund to be charged for employee salaries. We reviewed 211 personnel files for those employees who were on the personnel department's listing of employees or on the payroll department's listing of employees, but who were not on both listings.

Of the 211 files that we reviewed, 62 (29 percent) did not contain evidence of the personnel department's authorization to hire the employee. Currently, the district uses a document called the Personnel Action Memorandum (PAM) to help ensure good internal control over the hiring of employees. Good internal control dictates that the hiring of employees be authorized by the appropriate responsible individuals. However, the district's personnel department could not provide evidence that it always authorized the hiring of employees. If the payroll department processes any hiring documents from the personnel department that do not contain appropriate authorizing

signatures, the payroll department has only limited assurance that it is not using fraudulent documents to place employees on the district payroll.

According to the assistant superintendent of human resources, he believed that a blanket approval from the board of trustees for hiring adult education teachers and substitute employees eliminated the need for him to sign each hiring document. However, we believe that the personnel department's authorizing signature accomplishes an objective different from the blanket board approval: the blanket board approval authorizes personnel to hire employees as needed whereas the personnel department's authorization assures the payroll department that the employee has been approved to be placed on the district payroll.

The Business Services Guide requires each certified employee to be appointed by the board of trustees and all classified employee appointments to be ratified by the board of trustees. Blanket board approval does not satisfy the individual approval requirement cited in the Business Services Guide. Further, the PAM, when completed correctly, would contain the board of trustees' approval date. However, for 96 (45 percent) of the 211 files we reviewed, the district could not locate evidence of individual approval by the board of trustees for hiring the employee. For example, three certified employees received payroll warrants totaling \$13,513 even though their personnel files lacked evidence that the board of trustees was aware of

their employment or that the personnel department had authorized their appointment for the times for which they were paid. If the board of trustees does not approve the hiring of each employee, it cannot be sure that hirings are in the best interest of the district.

According to the assistant superintendent of human resources, the personnel department recommended that the board of trustees give blanket approval for adult education teachers and substitute employees hired, rather than approval for each employee, based upon historical district practices. However, the assistant superintendent could not provide any documentation that would exempt the district from the Business Services Guide requirements mentioned above.

The California School Accounting Manual requires schools to ensure that applicable expenditures are charged to the appropriate programs. The PAM, if completed correctly, would indicate the program or fund to be charged for new or current employee salaries. However, 187 (89 percent) of the 211 files we reviewed did not indicate which program to charge for the employees' salaries. Without an indication of which program to charge, the district could inappropriately charge expenditures against federal and state funds.

According to the assistant superintendent of human resources, the personnel department did not identify the funding source on all hiring documents because the personnel department was often under time constraints, had limited staff available, and believed that the

financial accounting department was assuming this responsibility. According to the assistant superintendent of human resources, the personnel department is implementing a new intermediary step that will, among other things, identify the proper funding sources for new employees.

THE DISTRICT ISSUED SOME PAYROLL WARRANTS  
WITHOUT EVIDENCE OF PROPER CERTIFICATION

The district could not always locate evidence that services were performed for warrants it had issued. During our testing, we found three payroll warrants totaling \$1,728 that were issued to an employee in 1987, yet we could find no timesheets to substantiate the hours worked. In addition, the director of transportation did not certify the timesheets used to record the hours worked by employees of the transportation department. Instead, the director of transportation gave the payroll department a computer disk containing the transportation employees' hours.

Good internal control dictates that department supervisors certify timesheets submitted to support all payroll warrants. In addition, based upon a memo issued by the district's financial services division, the district's payroll department requires an original signature of the site principal or project manager on timesheets

submitted to the payroll department to certify that the information presented is accurate.

If the district issues payroll warrants without evidence that services were performed and does not ensure that the transportation department submits certified timesheets, the district could be paying employees for services it has not received. Also, if the district issues warrants without proper certification of time worked, employees could submit erroneous or fraudulent timesheets resulting in payments to employees for services they did not perform. According to the payroll supervisor, she is now requiring the director of transportation to sign the transportation department's timesheets to verify that the submitted information is accurate.

THE DISTRICT HAS NOT ADEQUATELY  
SEPARATED DUTIES RELATED TO  
SOME PAYROLL PROCEDURES

The district has not adequately separated duties between employees who process the documents that generate payroll warrants and those who handle payroll warrants. Good internal control dictates that a clerk who processes payroll information should not handle payroll warrants. However, the district's payroll clerks have performed both of these duties. Not only have the payroll clerks processed payroll information and handled payroll warrants before these warrants are distributed to employees, but they also have taken custody of the undistributed warrants that are returned to the payroll unit.

According to the district's payroll supervisor, the payroll department maintains and processes payroll information as well as receives custody of payroll warrants. However, without proper separation of duties over processing payroll documents, employees in the payroll department could perform and conceal a fraudulent act. For example, a payroll clerk could place a fictitious employee on the payroll system, submit false timesheets, and then intercept the payroll warrant.

#### CONCLUSION

The district has not always exercised adequate control over its personnel and payroll activities. Specifically, the personnel department could not provide evidence that it has always authorized and the board of trustees has always approved the initial hiring of individual employees. In addition, the personnel department did not indicate the program or fund to be charged for employee salaries in 89 percent of the employment documents we reviewed in the employees' personnel files. The district also issued several payroll warrants although we could find no evidence of proper authorization for the time worked. Finally, the district has not adequately separated duties related to payroll activities.

## RECOMMENDATIONS

To ensure that it has adequate controls over personnel and payroll activities, the Sweetwater Union High School District should take the following actions:

- Require the personnel department to sign all hiring documents, indicating the program or fund to be charged for the employee's salary expense;
- Require every employee hired to be individually named before the board of trustees;
- Adhere to its payroll policies and procedures for issuing payroll warrants only upon verification that services have been rendered;
- Require all department directors, including the director of transportation, to certify their department's timesheets; and
- Establish a policy to ensure an adequate separation of duties between payroll processing and receipt of payroll warrants.

V

**THE SWEETWATER UNION HIGH SCHOOL DISTRICT  
NEEDS TO IMPROVE ITS CONTROL  
OVER ITS REVOLVING FUND**

The Sweetwater Union High School District (district) has not adequately controlled payments made from its revolving fund. Specifically, from July 1, 1987, through December 31, 1989, the district made payments in violation of the California Education Code, the district's own policies or regulations, and the employment agreements of the superintendent's contract. In addition, the district has not followed or established some revolving fund and travel policies or regulations to ensure that disbursements are in the best interest of the district. Also, because the district has not ensured that travel claims are filed promptly, it has jeopardized the collection of \$12,558 in cash advances.

THE DISTRICT HAS NOT COMPLIED WITH THE  
EDUCATION CODE, ITS OWN POLICIES AND  
REGULATIONS, AND EMPLOYMENT AGREEMENTS  
OF THE SUPERINTENDENT'S CONTRACT

Of the 35 revolving fund transactions we tested, 27 (77 percent) lacked proper approval, and 23 (66 percent) did not contain adequate supporting documentation when the payments were made. For instance, 9 transactions did not have proper invoices or were not mathematically correct. In addition, we identified two inappropriate expenditures during our review of the revolving fund.



The California Education Code, Section 44032, and district policy 4131.4 allow the district to reimburse employees for actual and necessary expenses they incur as part of required travel. However, the superintendent and the administrator of business authorized reimbursement of a travel expense that was not allowed by either the California Education Code or district regulation. Specifically, the district paid the assistant superintendent of human resources for his spouse's airline ticket to Florida and her registration fee to a conference the assistant superintendent was going to attend in November 1989. Because the assistant superintendent's wife is not an employee of the district, this expenditure was not a necessary business expense and thus, was not an allowable expenditure of district funds.

The superintendent's employment contract specifically states that the district is not to reimburse the superintendent for certain expenses incurred in San Diego County; instead, the superintendent receives a monthly business expense allowance of \$700. Contrary to his contract, the district paid the superintendent from the revolving fund for a nonreimbursable expense he incurred in San Diego County. Specifically, the district paid the superintendent for a meal he had purchased during a meeting with several principals at a local restaurant. This type of meeting, in addition to being incurred in San Diego County, is not one that is defined as reimbursable in the superintendent's contract. Thus, the district should not have reimbursed the superintendent for this expense. After we notified the superintendent of this problem, he stated that he had reimbursed the district for the meal.

District regulation 3326.1 requires that each expenditure be supported by a receipt from a vendor. Also, district regulation 4131.4.3 states that daily subsistence expenses for lodging will be limited to \$70 per day unless a higher rate is authorized. The district did not adhere to these regulations when it paid a hotel \$1,185.60 without an invoice or other support for the expenditure for two employees' lodging for four nights. In addition, it paid \$148.20 a day for the lodging expenditure, exceeding the authorized lodging of \$100 a day approved by the board of trustees. Therefore, the district not only paid a vendor \$1,185.60 without an invoice, but it also paid \$385.60 more than the board had authorized.

If the district does not follow adopted revolving fund policies and regulations, it cannot ensure that expenditures are appropriate according to state law and district policies and regulations. Also, if the district does not approve revolving fund expenditures before payment of these expenditures, it may reimburse employees for unnecessary or unreasonable expenditures.

THE BOARD OF TRUSTEES HAS NOT  
FOLLOWED SOME REQUIREMENTS OF THE  
SUPERINTENDENT'S CONTRACT OR ESTABLISHED  
ADEQUATE REVOLVING FUND REGULATIONS

We found no evidence in the board of trustees' minutes that the board had approved the superintendent's travel in both of the revolving fund transactions we reviewed that related to the superintendent's travel. District regulation 3326.1 requires that

employees of the district receive prior authorization for travel advances. Also, the superintendent's contract states that the board must approve his travel reimbursements. In addition, good internal control dictates that the same person should not initiate a request, approve the request, and receive the benefit of the request. However, the board has not followed the superintendent's employment agreement or established adequate policies or regulations over the superintendent's travel or his revolving fund transactions.

For example, a leave of absence form the superintendent submitted for business travel was not approved by anyone. This form covered travel from October 9, 1989, through October 21, 1989, when the superintendent went to Scandinavia and Europe. Also, the superintendent's request for a travel advance for this trip was not approved nor were his lodging expenditures in excess of \$70 a day or his claim for revolving fund reimbursement. The only signature appearing on the superintendent's claim for revolving fund reimbursement, other than his own, is the administrator of business's signature stamp, which is not used by the administrator of business but by a clerk who reviews the revolving fund claims.

If the district does not require that travel claims be approved, a travel request for unnecessary and unreasonable travel could be submitted, the trip could be taken, and travel expenses could be reimbursed without approval.

THE DISTRICT HAS JEOPARDIZED  
THE COLLECTION OF CASH ADVANCES

Because the district did not monitor and obtain reimbursement of cash advances promptly, the district may never collect \$2,245 from employees who no longer work for the district. Additionally, it may have jeopardized the collection of at least an additional \$10,313 in cash advances. We judgmentally selected 16 cash advances issued after July 1, 1989, and selected all 32 outstanding cash advances from July 1, 1985, through June 30, 1989, for testing. Of these 48 cash advances, 3 were cancelled, 17 have been repaid or cleared, and 28, totaling \$12,558, are still outstanding. Furthermore, these 28 cash advances have been outstanding from three months to four years.

District regulation 4131.4.3 requires that employees who receive advances repay or file a claim for the actual and necessary travel expenses incurred within ten working days after the date of travel.

Failure to receive prompt reimbursement of cash advances may cause the district to forfeit money owed to it by employees who no longer work for the district. Moreover, the district may be hindered in the collection of money owed from current employees.

## CONCLUSION

The district did not adequately control payments made from its revolving fund. Specifically, the district made payments in violation of the California Education Code, district policies and regulations, and those of the superintendent's contract. In addition, the district made expenditures in excess of allowable rates, has not followed or established adequate revolving fund or travel regulations, and has jeopardized the collection of cash advances.

## RECOMMENDATIONS

To ensure that its revolving fund expenditures follow established policy, that it pays only for the actual and necessary travel expenses of its employees, that it collects all cash advances owed to it, and that it strengthens internal control, the Sweetwater Union High School District should take the following actions:

- Follow established policies and regulations to ensure that revolving fund expenditures receive proper approval, are computed correctly, are adequately supported, and are for appropriate purposes as identified in the California Education Code and district policy;

- Adequately supervise its employees to ensure revolving fund and travel transactions are processed in compliance with state and district regulations;
- Establish policies regarding authorization of the superintendent's transactions; and
- Monitor and collect all cash advances promptly.

## VI

### **THE SWEETWATER UNION HIGH SCHOOL DISTRICT HAS NOT FOLLOWED ALL STATE REGULATIONS GOVERNING STATE FUNDS**

The Sweetwater Union High School District (district) has not followed all the requirements related to the expenditure of state funds. Specifically, the district violated state regulations by not using some of its equipment purchased with state funds for the intended program purpose of the equipment. As a result, students may not be receiving the benefits of the equipment purchased for their program. Also, the district charged unallowable expenditures to three state-funded programs. It charged \$392,007 in unallowable expenditures to the deferred maintenance program, \$324,907 to the lottery fund, and \$20,171 to the mentor teacher program.

#### **THE DISTRICT HAS NOT USED SOME OF ITS SPECIAL PROGRAM EQUIPMENT AS REQUIRED**

The district has inappropriately used some of the equipment it purchased with state funds designated for categorical programs. The California Administrative Code, Title 5, Section 3944, requires the district to maintain records to demonstrate that equipment purchased with funds designated for categorical programs is being used only for the approved program. However, in our review of 53 items of such equipment, we found that 6 were not being used as required by these categorical programs. For example, we observed that a computer purchased for the limited English proficiency program and a computer

purchased with funds designated to improve the educational opportunities of economically disadvantaged students were being used for advanced reading classes that are open to all students. In addition, we observed that two other computers that had been purchased with these same funds were being used in a counseling office that provides support for all students. The school principal stated that, following our review, school employees relocated these four items so they could be used for their intended purpose. We also found that a printer purchased with funds designated to improve elementary and secondary education was being improperly used in the computer repair shop to test equipment repaired by the district.

According to the district's director of consolidated programs, limited staffing has prevented the district from effectively monitoring the use of equipment at the school sites. Lacking effective monitoring, the district could not be certain that the school sites were using state-funded equipment to meet the educational needs of the students in these special programs.

THE DISTRICT HAS NOT COMPLIED  
WITH ALL STATE REGULATIONS  
RELATED TO THE EXPENDITURE OF  
DEFERRED MAINTENANCE FUNDS

According to the Applicant Guidebook for the State School Deferred Maintenance Law of 1979, issued by the Office of Local Assistance within the Department of General Services, the intent of the deferred maintenance law is to provide funding, on a matching basis,



for the repair or replacement of existing components within school buildings so that the educational process can safely continue. School districts wishing to apply for an apportionment of funds from the State School Deferred Maintenance Fund must submit a deferred maintenance application (five-year plan), documenting the district's repair and replacement needs annually over a five-year period, to the State Allocation Board for approval.

The California Education Code, Section 39618, states that the deferred maintenance fund is established for the purpose of major repair or replacement of plumbing, heating, air conditioning, electrical, roofing, and floor systems; the exterior and interior painting of school buildings; the inspection, sampling, and analysis of building materials to determine the presence of asbestos-containing materials; the encapsulation or removal of asbestos-containing materials; and any other items of maintenance approved by the State Allocation Board. The California Education Code, Section 39620, further states that any expenditure of funds from the district's deferred maintenance fund shall conform to the plan approved by the State Allocation Board. Also, the Office of Local Assistance, which administers the deferred maintenance program, states that, based on the California Education Code, the deferred maintenance fund is a restricted fund, and all expenditures from that fund are therefore restricted. Furthermore, according to the Applicant Guidebook for the State School Deferred Maintenance Law of 1979, expenditures for energy conservation are expressly prohibited.

During our testing of expenditures charged to the deferred maintenance program from July 1, 1987, through December 31, 1989, we reviewed 15 expenditures the district made, totaling \$560,593. Of these 15, 8 expenditures, totaling \$392,007 (70 percent), did not comply with state regulations governing the deferred maintenance program. For example, the district did not ensure that 4 of these 8 expenditures were included in the approved five-year plan although they were paid with deferred maintenance funds. In another of the 8 instances of noncompliance, the district improperly used deferred maintenance funds by purchasing a new lighting system to conserve energy.

The director of operations stated that the district charged the lighting system to the deferred maintenance program because the State did not provide that year's matching funds to the district. His interpretation is that the district could use those funds unmatched by the State for other maintenance expenditures not included in the five-year plan. However, the district carried the unmatched money forward to fund its matching portion of the two subsequent fiscal years. Therefore, the unmatched money was still restricted, according to the California Education Code, and should have been used in accordance with the approved five-year plan.

THE DISTRICT MADE SOME LOTTERY EXPENDITURES  
THAT WERE NOT IN COMPLIANCE WITH  
THE CALIFORNIA GOVERNMENT CODE

During our testing of lottery expenditures totaling \$365,969 that were funded through the State from July 1, 1987, through December 31, 1989, we identified expenditures totaling \$324,907 that did not comply with state regulations. The California Government Code, Section 8880.5, states that lottery funds are to be used exclusively for the education of pupils and students and that no funds shall be spent for acquiring real property, constructing facilities, financing research, or any other noninstructional purpose. However, with lottery funds, the district paid a lease payment and networking costs of \$145,887 for a computer system although, according to district data, 96 percent of the system is used for noninstructional administrative purposes. Also, the district used lottery money to pay architects' fees of \$20,160 and contractors' fees of \$46,773 for converting regular classrooms to science classrooms. In addition, the district also used \$18,450 of lottery money to pay a consultant to research personnel positions.

According to the superintendent, he disagrees with a premise that lottery funds are to be used for educational purposes. He believes that the only restrictions on these funds are that they cannot be used for research, purchases of real property, and construction. Coopers & Lybrand informed the district on July 27, 1989, that it had concerns over the use of some of the district's lottery funds.

We obtained a Legislative Counsel opinion on the authorized use of lottery funds. According to this legal opinion, the intent of the California Government Code, Section 8880.5, bars the expenditure of lottery revenue for noninstructional purposes, including, but not limited to, acquiring real property, constructing facilities, and funding research. Also, the Legislative Counsel believes that instructional purposes generally will involve a program or activity of teaching. Further, according to the Legislative Counsel, the reference in Section 8880.5 to noninstructional purposes will be interpreted to apply not only to the purposes expressly prohibited, but also to purposes having the same general character as those purposes. Accordingly, in this instance, the Legislative Counsel believes Section 8880.5 will be construed to prohibit the expenditure of lottery revenue for any purpose that is as peripheral to a program or activity of teaching as the expressly prohibited purposes of real property acquisition, construction of facilities, and research. Applying the standard cited by the Legislative Counsel, we believe the following use of state funds is not authorized under the California Lottery Act of 1984 (act): the use of lottery funds for a lease payment and networking costs of \$145,887 for a computer system that the district is using primarily for noninstructional purposes; the payment of \$20,160 for architect's fees; the payment of \$18,450 to pay a consultant for a classification and compensation study; and the payment of \$46,773 to a building contractor for classroom conversions.

The Legislative Counsel acknowledges that the act grants school districts the responsibility for determining the appropriate use of their lottery funds, and it recognizes that this responsibility would involve some interpretation or construction of the term "noninstructional purpose." However, in its opinion, the Legislative Counsel cautions that school districts do not have carte blanche authority in determining the use of lottery funds.

THE DISTRICT INCORRECTLY CHARGED  
HEALTH AND WELFARE BENEFITS TO THE  
MENTOR TEACHER PROGRAM

The district did not always ensure that expenditures charged to the mentor teacher program, which is state funded, were allowable. According to the California Department of Education's regulations, to the extent that other program charges are generated by the stipend, for example workers compensation programs, these charges should be paid from the "other cost" allowances of the mentor teacher program. The regulations make no allowance for costs such as an employee's health and welfare benefits that are not related to the amount of an employee's salary and thus are not generated by the stipend. However, the district charged \$20,171 of health and welfare benefits to the mentor teacher program.

As a result of charging the mentor teacher program with unallowable costs, teachers participating in the program may not have received the full benefits of the program. For example, if unallowable

costs are charged to a program, less funds will be available for the intended purpose of the program. In addition, failure to comply with state regulations could result in the California Department of Education taking fiscal actions against the district.

According to the accountant in charge of the mentor teacher program, the district's accounting system automatically charged health and welfare benefits to the program when salaries were computed for the program. The district is currently reimbursing the mentor teacher program for unallowable costs charged in fiscal year 1989-90, but it has not yet reimbursed the program for unallowable costs charged in fiscal year 1988-89.

#### CONCLUSION

The Sweetwater Union High School District has not always adhered to state regulations related to state funds. Specifically, the district has purchased equipment with state program funds but has not always ensured that students who are eligible to participate in the program are using the equipment. Consequently, students may not have received the benefits of the equipment purchased for their program. Also, the district has not always ensured that expenditures are made for an allowable purpose. As a result, the district charged unallowable expenditures of \$392,007 to the deferred maintenance program, \$361,251 to the lottery fund, and \$20,171

to the mentor teacher program. Failure to comply with state regulations could result in the California Department of Education taking fiscal actions against the district.

#### RECOMMENDATIONS

To ensure that all expenditures charged to state programs are in compliance with state regulations, the district should take the following actions:

- Ensure that equipment purchased with funds designated for special programs be used only for the particular program for which the funding was approved;
- Ensure that it complies with all regulations related to the deferred maintenance program, including charging only those expenditures to the program that are in the approved five-year plan and charging only allowable expenditures to the program;
- Ensure that lottery funds are not used for acquiring real property, constructing facilities, financing research, or any other noninstructional purpose; and
- Ensure that only allowable costs are charged to the mentor teacher program.

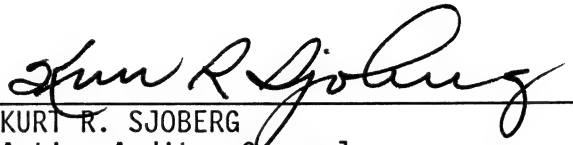
To ensure that local educational agencies are expending lottery funds as the Legislature intends, the Legislature should consider the following:

- Clarify the definition of "noninstructional purpose," as cited in California Government Code, Section 8880.5, by using the definition in the opinion of the Legislative Counsel of California. This definition states that noninstructional purpose will be construed to prohibit the expenditure of lottery revenues for any purpose that is as peripheral to a program or activity of teaching as the expressly prohibited purposes of real property acquisition, construction of facilities, and research.



We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,

  
KURT R. SJOBERG  
Acting Auditor General

Date: July 23, 1990

Staff: Philip J. Jelichich, CPA, Audit Manager  
William Glenn Ashby, CPA  
Robert G. Ficke, CPA  
MarSue Klepic  
Ronda L. McKinnie  
Izett S. Barnett, Jr.  
Alison A. Turner

**APPENDIX A**

**COOPERS & LYBRAND'S REPORT OF FINDINGS AND RECOMMENDATIONS  
FOR THE SWEETWATER UNION HIGH SCHOOL DISTRICT IDENTIFIED  
FROM JULY 1, 1986 THROUGH APRIL 30, 1989**

## BUDGETING

The Lottery Fund has a financial budget which sets guidelines for the amounts and types of expenditures to be incurred. The budget and any revisions must be approved by the Board of Trustees.

An accurate and timely budgeting system enables management to efficiently monitor expenditures and make well-informed financial decisions based on the relationship between budget and actual expenditures. We observed the following regarding the District's budgeting process:

### 1. Yearly Budget Report

#### Observation

The yearly budget report of lottery expenditures which is completed for the California State Department of Education (the J-L Report) had budgeted amounts which did not approximate accurately the expenditures for the year. Actual expenditures incurred versus budgeted expenditures reported varied from between \$1,000,000 and \$3,000,000 for the years 1987 through 1989.

#### Background

The yearly budget submitted to the State Department of Education is signed by responsible officials within the County and the District as being true and correct to the best of their knowledge. Every possible effort should be made to accurately approximate the upcoming year's expenditures.

#### Recommendation

We recommend that actual expenditures be reviewed in order to estimate the costs for the upcoming year.

### 2. Preparation of Budget

#### Observation

We noted during our review of the Lottery Fund budgets adopted by the Board that the adult fund's budget included prior year's carryovers, but the general fund did not include prior year's carryovers in the current year budget.

#### Background

The preparation and use of the budget is an important control in the process of limiting excess and unauthorized expenditures. Budgets should be prepared in a consistent manner in order that the Board and other financial administrators are aware of the upcoming year's expenses.

#### Recommendation

We recommend that the District review their budget process to ensure that budgets are prepared in a consistent manner.

## BUDGETING, CONTINUED

### 3. Working Budgets

#### **Observation**

The lottery budget for the Adult Education Fund was revised and has not been input into the accounting system. In addition, we noted time lags in prior years between the budget per the accounting system and the adopted budget per the Board.

#### **Background**

Financial administrators within the District receive financial reports in order to assess the operations and financial position of the programs within the District. In order for the assessments to be as effective as possible, all budget revisions, expenditures and encumbrances should be entered in a timely manner.

#### **Recommendation**

We recommend that every effort be made to input Board revisions into the budget system in a timely manner. If time constraints limit one person, the possibility of delegation with proper review should be evaluated.

### 4. Use of Budgeted Funds

#### **Observation**

The current budgeting process calls for Board approval of the budget which details only broad classifications of expenditures. Once the budget is approved, available funds may be spent on any expenditure which falls under the broad budget categories. No secondary approval is required to ensure that all program expenditures will have the necessary funds available to spend. This environment presents the weakness that there appears to be no prioritization of expenditures.

#### **Background**

This situation leads to the possibility that all available funds may be spent on purchases which are not specifically called for or necessary. Expenditures which are necessary (such as repair of buildings, etc.) may be impaired due to the lack of funds as a result of expenditures for lower priority items. For example, we noted significant purchases charged to the non-instructional equipment budget code, such as software modifications, VAX lease expenses, and improvements to teachers' lounges, which may have pre-empted the expenditure of high priority items.

## BUDGETING, CONTINUED

### **Recommendation**

We recommend that independent and responsible officials be appointed to approve all purchase orders and invoices in excess of a certain amount (say \$1,000). The invoice should be reviewed to determine whether the purchase was authorized as part of the adopted budget, both in total and as a specific item within that budget category. If additional expenditures are required within certain line items, Board approval should be required for both the addition to the budget and the required budget transfer from another category.

### **5. Budget Codes**

#### **Observation**

In our review of lottery expenditure invoices, we noted the following with respect to budget code classifications:

- Several purchases did not match the budget code classification they were recorded in.
- Expenditures were not always consistently classified. For example, software is classified as both instructional equipment and general supplies.
- There are an insufficient number of budget codes to accurately classify purchases. For example, from the inception of the lottery through April 30, 1989, non-instructional equipment expenditures were \$1,365,952 over budget and instructional equipment expenditures were \$1,018,185 under budget. These large budget variances indicate there are an insufficient number of budget codes to accurately classify purchases and that purchases are not classified consistently.

#### **Background**

Accurate recording of expenditures is essential for proper budgeting. In addition, proper recording assists in assessing the appropriateness of the purchase. The budget codes established need to be sufficiently detailed and defined to allow for effective budget reporting.

#### **Recommendation**

We recommend the following:

- Establish guidelines as to the classification of purchases into budget codes. The guidelines should be specific and clear. One individual should be designated to review any questionable classifications and answer any budget code inquiries. This will help ensure consistency.
- Additional budget codes be established for the Lottery Fund to further classify the instructional and non-instructional equipment budget codes.

## BUDGETING, CONTINUED

### 6. Budget Performance

#### Observation

The Board of Trustees for the District currently does not receive budget-to-actual comparative reports on a monthly basis. We also noted that large budget-to-actual variances exist for many of the programs.

#### Background

Ultimately, the Board of Trustees is held accountable to the public for the financial performance of the District. Unless the Board receives timely information as to how actual expenditures compare with the amounts approved and budgeted, it is difficult to detect and resolve any financial problems before they become significant.

#### Recommendation

The Board of Trustees should receive, prior to their monthly meetings, reports which compare actual amounts expended to budgeted amounts. These reports should identify variances by program and by type of expenditure. All significant variances should be explained in the report. This will allow the Board to make more effective and timely financial decisions.

## PURCHASING

All Lottery Fund purchases at the District begin with a purchase requisition. The requisition is approved by an authorized individual and forwarded to the purchasing department. A purchase order is generated which becomes the basis and authorization for the expenditure. If the purchase order is in excess of a certain amount, the District is required to obtain competitive bids for the purchase. All lottery expenditures are subject to the State Department of Education regulations.

### 1. Purchase Requisition

#### a. Observation

Purchase requisitions are disposed of after a two-year period.

##### Background

Purchase requisitions indicate the originator of the purchase request and the authority approving the purchase. Follow-up on grant and program expenditures may require that the noted persons be contacted.

##### Recommendation

We recommend that purchase requisitions be put on microfilm for future reference in case the need arises.

#### b. Observation

During our examination of Lottery Fund expenditures, we noted in one instance that a purchase requisition originated with an expenditure code other than the lottery code and was subsequently changed to a lottery code expenditure. No subsequent approval authorizing this transfer of funds was evident (see Exhibit A).

##### Background

Background as previously noted.

##### Recommendation

We recommend that all changes made to purchase requisitions subsequent to approval require an additional approval by an authorized person. This will help to avoid non-authorized expenditures being made from the Lottery Fund or any other fund.

#### c. Observation

During our examination of lottery expenditures, we also noted several instances where purchase requisitions were not being approved by the authorized person (see Exhibit A).

##### Background

Background as previously noted.

## PURCHASING, CONTINUED

### Recommendation

We recommend that approvals be made by authorized persons only and that requisitions not be processed until the proper authorization is obtained. This will help to prevent non-authorized expenditures being made from the Lottery Fund.

## 2. Competitive Bids

### a. Observation

The District requests competitive bids on all expenditures over a stated amount (\$15,000 for labor, \$21,000 for materials), but no procedures exist to ensure that a representative number of suppliers receive and respond to the request.

### Background

Statutes require that procedures exist to ensure that a representative number of suppliers receive and respond to a request for bids.

### Recommendation

We are aware that the District publishes a notice to bidders calling for bids, but we recommend that procedures be established to ensure that a minimum number of vendors' bids are received in response to the bid request.

## 3. Purchase Orders

### a. Observation

During our review of the purchase order file, we noted that purchase orders issued subsequent to April 30, 1989 were maintained at individual buyers' desks. These purchase orders were not easily traceable due to the lack of a summary control log or other form of tracking device.

### Background

Purchase orders are the essential document to all purchases. Once billing information is received from vendors, purchase orders may be used to verify various information (i.e., items ordered, unit cost, authorized buyers, etc.).

### Recommendation

We recommend a summary control log be implemented and maintained tracking a purchase order to a specific buyer. This log will prevent the loss of documentation for purchases and will provide a more efficient route for tracking purchase orders that require subsequent review.



## PURCHASING, CONTINUED

### **b. Observation**

During our review of the Lottery Fund expenditures, we noted that the same individual (Doyle, Perry or Rindone) may both initiate and approve a purchase order. The only approval requirement on the purchase order is that it be approved by one of the three individuals previously named. For example, Dr. Doyle may initiate a purchase requisition for computers and he may also approve the related purchase order. Therefore, there is no control over whether these purchases are appropriate and fall within the budget guidelines (see Exhibit B).

#### **Background**

Approval of the purchase orders at the District is a critical control over the propriety of expenditures. Since the check signer at the District is an accounting clerk, rather than a supervisory individual, there is no dual control over purchases.

#### **Recommendation**

We recommend that when a person initiating a requisition is either Doyle, Perry or Rindone, a second approval of the purchase order be required. This approval should be one of the other authorized individuals or the District superintendent. This will help ensure that monies are not expended for improper or unauthorized purposes.

### **c. Observation**

We noted that blanket purchase orders are issued to vendors for purchases of software. Certain individuals are authorized to purchase items under the blanket purchase order, provided they do not exceed a predetermined limit. For example, we noted several blanket purchase orders with Egghead Software. Various types of software were purchased under these arrangements and it is not clear whether all purchases are for educational purposes (see Exhibit C).

#### **Background**

The purchase order is the primary document which governs authorized expenditures. Blanket purchase orders, by their nature, are susceptible to misuse. Additional authorization may be required when using blanket purchase orders in order to prevent improper purchases.

#### **Recommendation**

We recommend one of the following:

- Blanket purchase orders no longer be used.
- Controls be instituted whereby invoices supporting the items purchased under the blanket purchase order be approved by a responsible party other than the purchaser prior to being paid.

## PURCHASING, CONTINUED

### 4. Allowable Expenditures

#### Observation

We noted in our examination that lottery funds were used to purchase such items as irrigation systems, carpeting and draperies, furniture, security systems and office remodelings.

#### Background

Per regulations devised by the State Department of Education, lottery funds cannot be used for:

- acquisition of real property;
- construction of facilities;
- financing of research; or
- any non-instructional purposes.

Although instructional purpose is vague, it has generally been interpreted as being synonymous with educational. It appears that the above expenditures made may fall out of the broad latitudes of the interpretation of "instructional" expenditures.

#### Recommendation

The District, through April 30, 1989, has expended over \$2,400,000 on "non-instructional equipment." To avoid any penalties for violations, we recommend that all non-instructional expenditures be checked as to their compliance with lottery guidelines. Any doubts as to the appropriateness of expenditures should be reviewed by an attorney or directed to the County Counsel for an interpretation.

## RECEIVING

The receiving functions follows once a purchase order has been issued and the goods or services requested from the vendor. The District has a central receiving center; however, purchases may also be received at the school sites. A copy of the purchase order serves as a receiving document and all receipts are required to be evidenced by a signature. The following observations were made with regards to the receiving function:

### 1. Receiving Function

#### Observation

During our review of receiving reports, we noted the following:

- Various receivers were not signed, including receivers used where only a partial delivery was received.
- Numerous receivers were signed with an illegible signature.
- Receiving reports for services provided are signed by the same person requesting the service. The receiver is not reviewed by a supervisory individual.
- The receiver is a duplicate of the purchase order and includes the quantities which were originally ordered.
- The original shipment date for orders received in two shipments is not noted on the final receiver.
- A copy of the purchase order is not included in the invoice package for partial deliveries.

#### Background

The receiving department provides written evidence that goods ordered and shipped by vendors were received. A lack of segregation of duties between the person originating the order and evidencing receipt could result in the District paying for services or goods that have not actually been received. The person accepting the goods should sign the receiver in a legible fashion in case any questions arise regarding the shipment.

The receiving function should inspect goods for conformity with specifications on purchase orders. To improve the likelihood that receiving personnel will independently determine quantities, quantities should be omitted from the copy of the purchase order sent to the receiving department.

At the time of payments, the accounting department should verify that the item invoiced agrees to the item ordered and received. In order for the above procedure to be performed, a copy of the purchase order should be included in the invoice package for partial deliveries. In addition, the original delivery date should be noted on the final shipment in order that a complete trail exists for the purchase.

## RECEIVING, CONTINUED

### Recommendation

We suggest that procedures be implemented to ensure that:

- All receivers are signed in a legible fashion.
- The receiving personnel perform an independent count by omitting the quantities from the purchase order sent to the receiving department.
- A person other than the one requesting the service sign the receiving report and that it be reviewed by a supervisory employee for unusual or significant items.
- All invoice packages are complete, including purchase orders, and should be included on partial shipments. The original shipment date should be included on final deliveries.

## 2. Fixed Assets

### Observation

The tracking of fixed assets (i.e., furniture and computers) distribution from the receiving department to the school sites is not maintained in order to facilitate inventory-taking procedures.

As part of our testing of lottery expenditures, we attempted to trace the purchase order to the physical item (equipment, computers, furniture) purchased. We encountered the following during this procedure:

- No report exists which identifies, for each purchase order, the serial number or other identification of the equipment, furniture or other fixed asset purchased. No report exists identifying the school site or location the fixed asset was transferred to.
- A log is not maintained which accounts for transfers of computers or other equipment between school sites.
- Teachers are allowed to take computers home without accounting for them to a responsible official. No documentation of computer use by teachers exists.
- Many receiving copies of the purchase order are stamped with a blank serial number and location stamp, but the information is not completed, nor is a listing attached which indicates the serial numbers and locations of equipment (see Exhibit D).

In summary, the present condition of the fixed asset accounting system is such that it is not possible to account for all fixed asset purchases.

## RECEIVING, CONTINUED

### **Background**

Fixed asset accounting systems are mandatory to ensure that computers and other such equipment are not subject to theft. Accurate fixed asset accounting systems will also assist in detection of any misappropriation of fixed assets by employees or students.

In addition, governmental accounting and financial reporting standards require the District to maintain a general fixed asset account group (GFAAG). The GFAAG is a management control and accountability listing of an entity's general fixed assets. In order for the GFAAG to be established, the District will need to take a complete physical inventory.

### **Recommendation**

We suggest that the District establish a reporting system for all fixed asset purchases. As part of the procedures to be implemented, we recommend that the serial number of fixed assets be noted on the receiver when the item is delivered.

In addition, we recommend that the locations of all fixed assets be documented and any transfers between schools or to teachers be authorized and documented. Physical inventories of all fixed assets should also be performed on a periodic basis.

## MISCELLANEOUS

The following observations were made with regards to miscellaneous items noted during our testing:

### 1. Adjusting Journal Entries

#### **Observation**

During our testing of lottery expenditures, we noted adjustments totaling in excess of \$50,000 which had no supporting documentation other than a journal voucher. No explanations were supplied other than someone had told the accounting department to make the adjustment. The adjustments transferred expense between budget codes within the Lottery Fund and also between funds (i.e., Lottery Fund and other funds) (see Exhibit E).

#### **Background**

In order to properly account for all expenditures made within a budget code, supporting documentation is required for all entries.

#### **Recommendation**

We recommend that all adjusting journal entries include an explanation as to the purpose of the transfer and require proper approval (i.e., District superintendent) for transfers made between funds. This will help ensure that all expenditures within a budget code can be identified and accounted for properly.

### 2. Warrant Generation

#### **Observation**

Invoices are not subjected to final written approval and review by a responsible employee prior to the warrant generation. A lack of review may lead to errors going undetected.

#### **Background**

We are aware that various approvals occur prior to check generation, such as the purchase order being signed by the department or site receiving the goods or services and purchase requisitions being approved by a responsible employee.

Mistakes may occur at the point the warrant is generated due to the large volume of checks generated and the chance of human error.

#### **Recommendation**

We suggest all invoice packages be approved by a responsible employee prior to warrant generation in order that any errors may be detected.



# Sweetwater Union High School District

ADMINISTRATION CENTER  
1130 FIFTH AVENUE  
CHULA VISTA, CALIFORNIA 92011  
619 691-5555

ANTHONY J. TRUJILLO  
DISTRICT SUPERINTENDENT

July 16, 1990

Kurt R. Sjoberg, Acting Auditor General  
Office of the Auditor General  
660 "J" Street, Suite 300  
Sacramento, CA 95814

Mr. Sjoberg:

Attached you will find the Sweetwater Union High School District responses to the audit report conducted by members of your staff. We are pleased that they have confirmed that there is no evidence of criminal wrong doing in the district. <sup>(1)</sup>\*We are also pleased that the auditors recognized the progress that this district has made over the past two years in the areas reviewed. Their in-depth report will be helpful in stimulating the continuation of our progress.

I feel that it is appropriate to provide you with some information about the involvement of your office with our district as a context for this report. Your initial involvement was a result of a request by two legislators. That request was based upon false allegations brought forth by a former employee of the district. Those allegations have been proven to be false by investigations of appropriate legal agencies.

In 1985, the Sweetwater Union High School District selected a new superintendent. The major priorities established for the first two years were instructional and community related. In the last three years, we have been making major improvements and revisions in the business and operation practices. This has taken a considerable amount of time. A major approach for these improvements has been to change personnel in these areas. These changes have been difficult but supported by a majority of the board.

Changes in leadership in the areas of operations, purchasing, and finance were made as a result of our awareness of certain deficiencies in the system, and a commitment on the part of the board to make improvements. The recommendations made by your staff confirm much of what we had already determined to be areas of concern and where we had, in fact, already begun to make changes.

On March 13, 1989, our previous chief financial officer left the district. That position was not replaced until September 29, 1989. During the interim we had the services of a person on loan

\*The Office of the Auditor General's comments on specific points in this response begin on page 107.

the new chief financial officer was in place. The search took some time since there is a scarcity of qualified candidates in the area of school finance. We believe that we are fortunate to have been able to hire an individual with superior qualifications, however, we are still understaffed in the financial division.

On June 5 1989, a new director of purchasing was hired. That individual has already made significant changes in procedures in the purchasing division.

There are areas of this report with which we are in disagreement. Some recommendations are matters of opinion and administrative style. (2) Some are seriously flawed in that our staff has provided evidence in several instances to the Auditor General's staff that adequately answered concerns raised, yet your staff has chosen to ignore the evidence and persists in making statements that are not accurate. (3) Some of these inaccuracies are cited in our responses. In order to keep our responses concise, we have not cited all of these, but we do have the information available should you desire it.


In the areas where there are clear State mandates, this district will comply. In areas of administrative style and/or opinion, we will take the advice under consideration and make the best decision based upon the priorities of this school district.

Finally, the timelines under which these responses were made are ludicrous. (4) After your staff spent over four months full time developing these findings, we were given five days to respond. There was no consideration that we are understaffed in financial services, the annual budget is in process (without a state budget to guide us), and our annual audit is in progress which entails the yearly closing of the books. Add to this the need for summer vacations for our staff. Perhaps the next district could be given more consideration as a result of our experience.

Our district has received many national and state awards during the past five years. Our test scores are on a steady rise and our dropout numbers are on a dramatic decline. We have increased our college bound students from 30% to 70%. Our finances are scarce but well managed. We have an excellent school district which serves its students and community well. We know what our problems are, and we are attending to them.

Thank you for the opportunity to respond to the findings and recommendations contained in this report.

Sincerely,

  
Anthony J. Trujillo  
District Superintendent



Sweetwater Union High School District  
July 1990

RESPONSES TO THE REPORT FROM  
THE OFFICE OF THE AUDITOR GENERAL

To safeguard its assets, the Sweetwater Union High School District should take the following actions:

RECOMMENDATION:

- Continue its present effort to establish the inventory records it needs to properly account for its equipment;

RESPONSE:

The district implemented extensive inventory control procedures as of August 1989. As of that date, all new equipment purchased by the district has been incorporated into the district's inventory control files. In addition, over 60% of all previously existing equipment has also been included in the inventory files. These files provide complete historical data on all equipment, i.e. description, serial number, purchase order number, price, and location, etc.

RECOMMENDATION:

- Continue the present effort of researching procurement documents to ensure that a complete list of equipment has been compiled, and fully reconcile the results of the Automated Dimensions, Inc., inventory with this list of equipment;

RESPONSE:

The district believes that the electronic equipment inventory has been reconciled and the Auditor General's staff used methodology that appears to be flawed. (5) The district is working toward including the 40% of remaining non-computer equipment in its inventory.

RECOMMENDATION:

- Conduct an inventory of the equipment that was not included in the scope of the Automated Dimensions, Inc. inventory;

RESPONSE:

As indicated in the response above, the district continues in the process of completing an entire "wall-to-wall" fixed asset inventory.

RECOMMENDATION:

- Conduct a physical inventory of its fixed assets at least annually;

RESPONSE:

The district concurs that under ideal circumstances, an annual physical inventory is desirable; but given the significant resources required to conduct same, the district potentially will have to evaluate this recommendation prior to a decision. Under any circumstances, the district will comply with legal requirements regarding inventories.

RECOMMENDATION:

- Continue its present procedures for recording the receipt of new equipment into the inventory data base;

RESPONSE:

This process was implemented commencing August 1989 as an internal procedure change, and it will be incorporated into the district's revised regulation in the area of inventory control.

RECOMMENDATION:

- Properly supervise and record transfers of property.

RESPONSE:

This procedure has always been in place as indicated by regulation 3320.1. All district staff will be inserviced regarding the propriety and necessity of controlling asset transfers from site to site.

To ensure that all purchases are approved, bidding procedures are followed, and accounting procedures adhered to, the Sweetwater Union High School District should take the following actions:

RECOMMENDATION:

- Continue its present effort of establishing detailed policies and procedures to improve control of the purchasing function;

RESPONSE:

The first draft of district internal procedure changes was completed in November 1989, and will be incorporated into district regulation 3320.1, Purchases of Supplies, Services and Equipment.

RECOMMENDATION:

- Require that an employee other than the requestor approve requisitions;

RESPONSE:

The district's current regulation (3320.1) dated May 6, 1982 remains in effect, and as such, no change is required. (6)

RECOMMENDATION:

- Require the financial services division to review and approve all purchase orders to verify that funding is available and expenditures are correctly charged;

RESPONSE:

District practice has been that the Financial Services Division certifies each purchase requisition as to both its availability of funding and the propriety of expenditure distribution. This procedure will be reinforced with all financial services staff members to ensure full compliance.

RECOMMENDATION:

- Require that the board be provided a listing of purchase orders and contracts that states the vendor, product, and price so the board has a basis to approve the purchase;

RESPONSE:

The district concurs with this recommendation and has incorporated it into current purchasing internal procedures. It will also be incorporated into a revision to district regulation 3320.1.

RECOMMENDATION:

- Require a supervisor's written approval for reimbursements to employees;

RESPONSE:

This is existing district procedure and has been reinforced with all district management, department heads and employees.

RECOMMENDATION:

- Require that district buyers obtain three bid sources when making a purchase that exceeds amounts designated in district policy;

RESPONSE:

The district regulation 3320.1 has been reinforced with all buyers to ensure compliance.

RECOMMENDATION:

- Select the lowest responsible bidder or provide adequate documentation supporting that a bidder is nonresponsive when selecting a higher bidder;

RESPONSE:

District regulation 3320.1 has been reinforced with all buyers. The example cited by the auditors is the RFP for the telephone system. The district takes exception to this recommendation and believes the research supporting the findings cited is not indicative of the events surrounding the telephone bid. The district contends that the purported lowest bid was in actuality not a responsible bid. (7)

RECOMMENDATION:

- Classify vendors as sole source only upon the written opinion of county counsel or private counsel;

RESPONSE:

The San Diego County Office of Education's Commercial Claims Warrant Manual has been reinforced with all buyers.

RECOMMENDATION:

- Require valid purchase orders and certified receiving documents before paying vendors;

RESPONSE:

The existing district regulation 3320.1 has been reinforced with all appropriate personnel involved. In addition, accounting procedures will be clarified to avoid any future misunderstandings.

RECOMMENDATION:

- Take available vendor discounts;

RESPONSE:

The district implemented centralized receiving in August 1989 to ensure the timely verification of receipt of merchandise and to provide the accounting department with the necessary documentation that would expedite payment of invoices and ultimately maximize the opportunity to take discounts.

RECOMMENDATION:

- Ensure payments do not exceed authorized amounts;

RESPONSE:

District regulation 3320.1 has been reinforced with all purchasing and accounting staff members. The example cited specifically relates to the Food Service procurement practices. Food Services procurement will now be conducted using the same procedures and internal controls that are currently in effect throughout the remainder of the district.

RECOMMENDATION:

- Ensure payments are issued only in compliance with valid contracts and purchase orders.

RESPONSE:

The example cited specifically relates to testing services for the district. We believe this example is an isolated and unusual occurrence, but we have reinforced with all appropriate personnel the need to ensure that all proper documentation exists prior to application for payment. As the district is not fiscally independent, appropriate officials at the San Diego County Office of Education have been apprised of the necessary fiscal support requirements.

RECOMMENDATION:

- Require that cafeteria funds be deposited with the San Diego County treasurer rather than commercial banks to maximize interest earnings.

RESPONSE:

Discussions with San Diego County Office of Education have revealed that of the 48 districts in San Diego county, only 13 food service departments have funds deposited in the county treasury. Conservative districts have made a standard business practice of using banks for food service departments. However, as of June 29, 1990, the board took action to transfer the cafeteria account to the San Diego County Treasurer.

RECOMMENDATION:

- Purchase cash registers or an acceptable alternative for use at cafeteria sites to improve control over cash receipts and to facilitate the recording of meals served under the school nutrition programs. The district should also ensure that no one employee has access to both the cash and the detail tape of daily transactions.

RESPONSE:

We agree with the recommendation.

RECOMMENDATION:

- Adhere to its own procedures by ensuring that at least two employees count cash receipts from cafeteria sales and sign the deposit slips.

RESPONSE:

Existing procedures require that at least two employees count cash receipts from cafeteria sales and sign the deposit slips. Food services has emphasized the established procedure to all food service employees and will continue to do so in established inservice training.

RECOMMENDATION:

- Ensure that employees having access to cash are adequately bonded.

RESPONSE:

Our checks and balances procedures require food service employees to prepare checks for the accounting department to process with a signature machine which is logged and numbered. The proper documentation must accompany the check for signature. All employees are bonded up to \$100,000 by Industrial Indemnity. No employee has access to more than \$100,000. <sup>9</sup> Where appropriate, the district will specifically increase the bonding on selected individuals.

RECOMMENDATION:

- Improve its control over cash receipts and blank check stock by limiting the number of employees who have access to the safe.

RESPONSE:

We agree with the recommendation. Procedures will be put into place to ensure the necessary levels of internal control.

RECOMMENDATION:

- Separate the duties of employees in the food services department so that no one person has access to cash receipts and the accounting records.

RESPONSE:

The district concurs with the recommendation and will segregate responsibility between finance and food services.

RECOMMENDATION:

- Ensure that no one person in the food services department is responsible for performing more than one of the following duties: Processing invoices, posting to registers and ledgers, approving disbursements, signing checks, and reconciling bank accounts.

RESPONSE:

This has been done in the following manner:

- processing invoices - invoice clerk II
- posting to registers and ledgers - accounting technician
- approving disbursements - director of food services
- we will be requesting that the financial services division reconcile food service accounts

RECOMMENDATION:

- Ensure that the following duties are performed by separate employees: ordering goods and services from vendors, receiving goods and services, and approving disbursements.

RESPONSE:

Processes are in progress to implement this recommendation as has been indicated in the Purchasing/Warehouse section's responses to this report.

RECOMMENDATION:

- Ensure that all daily log sheets are received from the cafeteria sites at the food services' district office.

RESPONSE:

The example cited is viewed as an isolated case; however, the established procedures have again been emphasized with food service employees. (10)

RECOMMENDATION:

- Retain all daily log sheets for time periods required by federal regulations and for audit purposes.

RESPONSE:

The district follows all federal regulations and, in fact, has received top ratings in the 1988 "Assessment, Improvement, Monitoring System (AIMS)" review conducted by the California State Office of Child Nutrition Services. (11)

To ensure that it has adequate controls over personnel and payroll activities, the Sweetwater Union High School District should take the following actions:

RECOMMENDATION:

- Require the personnel department to sign all hiring documents, indicating the program or fund to be charged for the employee's salary expense;

RESPONSE:

Effective July 1, 1990, all personnel action memoranda for adult education, R.O.P., and V.E.A. teachers will be signed by the Assistant Superintendent, Human Resources or designee. The district's position control system was implemented, effective July 1, 1990. With position control in effect, funding information will be contained in the authorization to hire document (personnel action memorandum).

RECOMMENDATION:

- Require every employee hired to be individually named before the board of trustees;

RESPONSE:

All personnel action employments received individual board approval to hire except for adult education, R.O.P., V.E.A., and substitute employees. These exceptions identified by the auditors were board approved by means of annual resolution to hire. Staff was unable to find any legal requirement necessitating the board to take individual employee hiring action for the job categories identified above. (12) Neither the Education Code nor the San Diego County Office of Education Business Services Guide (Rev. April 1989) addresses such a need. The district will take this recommendation under consideration; however, the district is not out of compliance with either the Education Code or the San Diego County Office of Education Business Services Guide. Further, districts of similar size, and larger, follow similar procedures as those of the Sweetwater Union High School District.

RECOMMENDATION:

- Adhere to its payroll policies and procedures for issuing payroll warrants only upon verification that service have been rendered;

RESPONSE:

The district continues to adhere to all established payroll policies and procedures and asserts that the incident noted was an isolated incident. (13)



RECOMMENDATION:

- Require all department directors, including the director of transportation, to certify their department's timesheets;

RESPONSE:

It is a normal payroll procedure to accept only signed, authorized timesheets for payment. A new computerized timekeeping system resulted in transportation not having a "hard" copy to use for authorization. The procedural practices that resulted in this omission have been corrected. Nevertheless, this brings up an issue. As we become more and more automated through the use of computers, will auditors require us to keep hard copies? (14)

RECOMMENDATION:

- Establish a policy to ensure an adequate separation of duties between payroll processing and receipt of payroll warrants.

RESPONSE:

The district will take this recommendation under consideration and also contact other districts for practices.

To ensure that its revolving fund expenditures follow established policy, that it pays for only the actual and necessary travel expenses of its employees, that it collects all cash advances owed to it, and that it strengthens internal control, the Sweetwater Union High School District should take the following actions:

RECOMMENDATION:

- Follow established policies and regulations to ensure that revolving fund expenditures receive proper approval, are computed correctly, are adequately supported, and are for appropriate purposes as identified in the California Education Code and district policy;

RESPONSE:

District policies and regulations require all of the above. Staff will receive reinforcement on the importance of complying with policies and regulations. The district believes the Auditor General's findings related to this recommendation are not indicative of practices being followed, and in addition, the items sampled represent unique and isolated instances.

RECOMMENDATION:

- Adequately supervise its employees to ensure revolving fund and travel transactions are processed in compliance with state and district regulations;

RESPONSE:

The district believes that its employees have, and continue to, receive adequate supervision and instruction relative to revolving cash and travel reimbursement policies. The district will continue to reinforce appropriate policies and practices with staff.

RECOMMENDATION:

- Establish policies regarding authorization of the superintendent's transactions.

RESPONSE:

This recommendation relates to the auditor's concern that no other employee approves the superintendent's travel.

We disagree with this recommendation because there is no other employee who supervises the superintendent; so therefore, no other employee would have approval power for the superintendent's expenditures.<sup>(15)</sup> However, you can be assured that the superintendent's expenditures both in the area of travel and in acquisition of supplies and equipment withstand the same tests as to validity, accuracy, and completeness that any other employee in the system would have to support.<sup>(16)</sup> The initial revolving cash forms are reviewed in Finance before checks are processed. Requisitions are reviewed in Finance, again in Purchasing, and finally in Accounting before the vendor invoice is paid.

RECOMMENDATION:

- Monitor and collect all cash advances promptly.

RESPONSE:

Current district practice includes the issuance of several follow-up letters to employees with outstanding advance cash. Additionally no further advances are provided to employees with outstanding cash advances. The superintendent may be recommending to the Board of Trustees that the district stop issuing cash advances for travel and instead reimburse employees out-of-pocket expenses following completion of travel.

To ensure that all expenditures charged to state programs are in compliance with state regulations, the district should take the following actions:

RECOMMENDATION:

- Ensure that equipment purchased with funds designated for special programs be used only for the particular program for which the funding was approved;

RESPONSE:

We disagree that all equipment purchased with funds designated for special programs be used only for the particular program for which the funding was approved.

The regulations regarding the use of equipment varies according to the program funding sources. Some programs serve all students in a school while others limit student participation. Once schools are made aware of, and understand, the regulations relating to their Consolidated Categorical Programs, district office and site staff work together to ensure compliance.

The Chapter 1 Policy Manual states that a school district may make equipment purchased with Chapter 1 funds available to other programs currently or previously supported by the federal government providing such use does not interfere with the Chapter 1 program. (17) State compensatory education regulations are in line with those of the federal government.

At the district level, the Office of Consolidated Programs provides all schools with the appropriate documents which set forth all of the laws and regulations regarding how and by whom the equipment purchased by the various state and federal programs may be used. Explanations, directions and technical assistance are also provided on an ongoing basis to clarify and assist schools in complying with the rules.

In addition, the specific equipment must be justified and used in terms of the program needs, goals and objectives described in School Plans for Consolidated Programs which are approved by the Board of Trustees by July 1 of each year.

The Office of Consolidated Programs has recently been provided with a district prepared inventory for consolidated programs. This inventory will be used to update each school's special programs inventory in accordance with the State Equipment Control Manual. Following this, with the new additional staffing now available in the Office of Consolidated Programs, a plan will be developed and implemented to monitor the equipment and its usage. On at least a semi-annual basis the Office of Consolidated Programs staff will work with site staff to ensure compliance with the laws and regulations of the funding source.

RECOMMENDATION:

- Ensure that it complies with all regulations related to the deferred maintenance program, including charging only those expenditures to the program that are in the approved five-year plan and charging only allowable expenditures to the program;

RESPONSE:

The Auditor General's report indicated the existence of \$392,000 of seemingly unallowable expenditures. Of this total, \$333,000 was for the repair of the roof at Montgomery Junior High -- a repair that was included in our deferred maintenance plan.<sup>(18)</sup> The district recognizes the fact that in the future any unmatched carryover in the deferred maintenance fund needs to be reallocated to the general fund prior to being expended for nondeferred maintenance-type items.

RECOMMENDATION:

- Ensure that lottery funds are not used for acquiring real property, constructing facilities, financing research or any other noninstructional purpose.

RESPONSE:

This district has not used lottery funds for acquiring real property, constructing facilities, financing research or any other noninstructional purpose. The point of this recommendation as we see it is that the Auditor General's staff disagrees with this local agency's definition of instructional purpose. In the discussion on page 69 of this report, the auditor's staff says, "According to the superintendent, he disagrees with a premise that lottery funds are to be used for educational purposes."

This is absolutely inaccurate.<sup>(19)</sup> The superintendent's only disagreement is with the specific items that the Auditor General's staff has cited as being noninstructional or noneducational. As the auditors state, the legislature has not clearly defined what noninstructional purpose is. And the law is clear that local educational agencies determine the expenditure of lottery funds with the exceptions already mentioned (acquiring real property, constructing facilities, financing research or any other noninstructional purpose).

Specific purchases that the auditors questioned are as follows: \$145,887 for a computer system, 96% of which they say is used for noninstructional administrative purposes. We disagree with this assessment of the use of the system. At least 90% of the system is used for direct student support.<sup>(20)</sup> Items such as student programming, student assessment, student's grade recording, etc.

The major part of the networking expense that the auditors referred to was to provide increased accessibility to student records for counselors giving direct student services. This detail was provided to the Auditor General's staff including specifically how many blocks of disk space on the system are used for student related activities. It appears that the auditors misunderstood the data they were given.

Example 2: Architects fees of \$20,160 and contractors fees of \$46,773 for converting regular classrooms to science classrooms.

I consider this an appropriate use of lottery funds to support a major change in the instructional program. The science curriculum was revamped by the State of California and much more laboratory science was added, creating the need to develop adequate teaching stations with laboratory facilities to support the new instructional program. These fees were to pay for necessary services in order to provide the necessary laboratory facilities to support those instructional programs which add a direct instructional benefit to students. (21)

The majority of lottery funds in California have been used by districts for salaries including salaries for noninstructional personnel. As a matter of fact, in our own district, the lottery funds are now committed for salaries. Therefore, I would submit that our previous use of lottery funds, as described in this document, was in fact more in keeping with the intent of direct instructional support. (22)

RECOMMENDATION:

- Ensure that only allowable costs are charged to the mentor teacher program.

RESPONSE:

The County payroll system allocates insurance benefit costs across all types of pay for an employee. Mentor teacher duty is one of the types of pay. Effective July 1, 1989 the district began overriding the computer system that was charging insurance benefits to the mentor program and began charging the benefits to the appropriate accounts.

To ensure that local educational agencies are expending lottery funds as the Legislature intends, the Legislature should consider the following:

RECOMMENDATION:

- Clarify the definition of noninstructional purpose, as mentioned in California Government Code, Section 8880.5, by using the definition in the opinion of the Legislative Counsel of California. This definition states that noninstructional purpose will be construed to prohibit the expenditure of lottery revenues for any purpose that is peripheral to a program or activity of teaching as the expressly prohibited purposes of real property acquisition, construction of facilities, and research.

RESPONSE:

This recommendation does not require a response from the district. However, we would support continued local control in the use of lottery funds.

**THE OFFICE OF THE AUDITOR GENERAL'S COMMENTS ON THE  
RESPONSE FROM THE SWEETWATER UNION HIGH SCHOOL DISTRICT**

To provide clarity and perspective, we are commenting on the Sweetwater Union High School District's (district) response to our audit report. The numbers correspond to the numbers we have placed in the district's response.

- ① The district is not precise when it states that we have confirmed that there is no evidence of criminal wrongdoing in the district. On page S-1 of our report, we state that we found no evidence to support allegations made of criminal activities at the district. However, audit procedures are not designed to find all evidence of criminal activity or to provide positive assurance that criminal activity did not occur. Moreover, we discuss numerous control weaknesses that could have allowed fraudulent acts to occur and go undetected in such areas as control over equipment (page 10), cafeteria cash (pages 37 and 41), cafeteria purchasing (page 42), and payroll (page 54).
- ② The district is incorrect when it states that some of our recommendations are matters of opinion or administrative style. We designed each recommendation to address a risk of losing assets at the district or to ensure compliance with federal, state, county, or district regulations that reduce risk or ensure that monies are spent as intended. In each chapter, we thoroughly discuss the potential risk that concerned us or the relevant federal, state, county, or district policy with which the district did not comply.
- ③ We do not believe that our report contains inaccuracies and that we have not considered relevant information that should have caused us to change our conclusions. We have fully documented every statement and conclusion in the report. If the district provides us with specific evidence that supports its statements, we will review it and determine whether it is valid. In our comments to the district's response, we disclose that some of the district's statements still do not demonstrate that the district complied with the relevant regulations; further, some of the district's statements are not accurate. For example, the district still has not demonstrated that it complied with regulations regarding the use of categorical equipment. Further, the superintendent disclaims making a statement that is contained in a letter he sent to us, dated June 7, 1990. Over the course of the audit, we have modified our findings when the superintendent gave us information that demonstrated that the district complied with relevant regulations or that the district's assets were not at risk.
- ④ We have given a five-day response period as a standard practice for many years. Over the last ten years, state agencies have responded to over 500 audit reports within the five-day period. District

staff were well informed about the nature of our audit before receiving the draft report for comment. For example, during the week of May 21, we met with the heads of various departments and informed them of our findings and recommendations related to their respective departments. In addition, on June 6 and again on July 5, we met with the superintendent and selected staff to allow them to read our preliminary drafts in their entirety to ensure that the district had a clear understanding of the nature and content of the report. In addition, at these meetings with the superintendent, we informed him when we expected to send him a draft report that would require a five-day response.

- 5 The district is incorrect in its statement that we used methodology that appears to be flawed. As stated on page 5 of this report, our audit procedures were limited because the district could not provide us with a comprehensive, auditable list of equipment. The methodology that we used was designed to determine if equipment purchased by the district was still located at the district. We asked the district to show us that categorical equipment located by a district employee during a 1988 inventory had been also located by Automated Dimensions, Inc., (ADI) or is now available for us to observe. As Table 1 on page 12 shows, it could not do so for 63 items. We also asked the district to show us categorical equipment not found by the district employee in 1988 and not found by ADI. As this same table shows, it could not do so for 24 items. Furthermore, we asked the district for evidence that some of the categorical equipment had been stolen, as was alleged. As Table 1 shows, it provided records indicating that 26 items had been stolen from the district. We also asked the district to show us that ADI had found other equipment purchased from September 1987 through October 1989 or that the other equipment is now available for us to observe. Table 1 shows that it could not do so for 64 items.
- 6 The district implies in its statement that current district regulation 3320.1 requires an employee other than the requestor to approve requisitions. District regulation 3320.1 requires that all requests for services, equipment, and supplies originate with a school or department and that the request be approved by the school principal, department head, or other authorized personnel. However, it does not specifically require that an employee other than the requestor approve requisitions. For example, it does not state who should approve requisitions prepared by principals and department heads. As stated on pages 20, 23, and 24 of our report, the director of operations prepared requisition forms for a vendor without supervisory approval and contracted with the same vendor in a manner that did not comply with competitive bidding requirements. Because the district's current regulation does not require an employee other than the requestor to approve requisitions, the district should modify its current regulation to respond to our recommendation.

- ⑦ The district implies in its statement that Dial One's bid was not a responsible bid. As cited in our report, based on a district analysis of this purchase, which was submitted to the board, district personnel stated they had reviewed the three lowest responsible bids. Included was a bid \$17,990 lower than the bid that was accepted. If, as the district now contends, the lowest bid was not responsible, district personnel must have incorrectly informed the board that there were three responsible bidders.
- ⑧ The district is incorrect in its belief that the example we cited of payments not issued in compliance with valid contracts was an isolated case. While this example relates to a specific contract, the district made a total of 21 payments after the expiration date of the contract and 22 payments for services not specifically requested in the contract. Moreover, we found additional instances of payments not issued in compliance with valid contracts in both general and cafeteria procurement.
- ⑨ The district's response is vague as to whether it has corrected the problem of employee access to the general cafeteria checking account we noted during our audit. As noted on page 39 of our report, at the time of our review, two food services employees could have embezzled funds from the general cafeteria checking account, leaving the district uninsured for any amount exceeding \$100,000 and up to \$900,000.
- ⑩ The district is incorrect when it states that the example cited in our report of failure to retain daily log sheets is an isolated case. On pages 43 and 44 of our report, we explain that the district could not locate daily log sheets used to record meals served in four of the ten claims for reimbursement tested (40 percent). Specifically, the district could not provide daily log sheets for the days we reviewed in November 1987, January 1988, September 1988, and July 1989.
- ⑪ The district is incorrect and misleading when it states that it follows all federal regulations. As indicated on pages 43 and 44 of our report, the district is not following all federal regulations related to child nutrition programs. Specifically, the district could not always locate support for claims for reimbursement submitted to the California Department of Education. In addition, the Assessment, Improvement and Monitoring System review conducted by the California Department of Education identified three areas of noncompliance.
- ⑫ The district states that staff was unable to find any legal requirements necessitating the board to take individual employee hiring action for the job categories cited. However, the district will find that the San Diego County Office of Education Business Services Guide (Rev. April 1989), page M-16, requires "each" certificated employee to be appointed by the governing school board, and page M-1 requires "all" classified personnel



appointments to be ratified by the governing school board. The Business Services Guide is the source of the criteria we cited.

- ⑬ The district is incorrect when it states that the issuance of a payroll warrant without evidence that services had been received was an isolated incident. The district could give us no evidence to substantiate payment for three payroll warrants issued to the same employee, dated July 10, October 10, and December 10, 1987.
- ⑭ Our concern is not that the district's computerized timekeeping system does not provide the district with hard copies. As we state on page 53 of our report, our concern is that the director of transportation did not certify the hours worked by employees.
- ⑮ The district is incorrect to state that our concern is that no other employee approves the superintendent's travel. Our concern is that the transactions we reviewed of the superintendent were not approved by anyone, not just another employee. Thus, the superintendent did not have to receive prior approval of his transactions although all other district employees' transactions are subject to review and approval by someone in a supervisory position. Since the superintendent's supervisory body, the board, did not approve the transactions we reviewed, he, unlike any other district employee, may initiate his own transactions and receive the benefit of these transactions without supervisory approval.
- ⑯ The district states that the superintendent's expenditures in travel and acquisition of supplies and equipment withstand the same tests of validity, accuracy, and completeness as those of any other employee in the system. However, in one of the revolving funds transactions we identified on page 58, the district, in effect, reimbursed the superintendent when his employment contract specifically stated he was not to be reimbursed for this type of expenditure. In addition, we found two other revolving fund transactions pertaining to the superintendent that were not in compliance with all district policies and regulations when the district paid these claims. Thus, all three revolving fund transactions we tested that applied to the superintendent were not in compliance with all policies and regulations of the district or the superintendent's contract at the time payment was made.
- ⑰ We agree with the district that equipment purchased with Chapter 1 funds may be used by other students providing that the students who are eligible for the Chapter 1 program are not disadvantaged as a result of other students using the equipment. However, according to the California Department of Education's manager of the Consolidated Programs Grants Management Unit, the California Administrative Code requires the district to show that students eligible to participate in a particular program have not been disadvantaged because other students were allowed to use equipment purchased with funds designated for the program. In its response, the district does not address the requirement that it maintain

records to demonstrate that the students eligible for the Chapter 1 program are not disadvantaged if the district uses Chapter 1 equipment for other purposes. Moreover, the district's response does not provide evidence of such records.

- (18) The district implies that the \$333,000 expenditure from the deferred maintenance program for roof repair was an appropriate expenditure because it was approved in the five-year plan. The expenditure for roof repair was approved for \$229,600 in the five-year plan, but for expenditure in fiscal year 1988-89. Instead the district charged this expense to the deferred maintenance program in fiscal year 1989-90. The Office of Local Assistance states that, based on the California Education Code, the expenditure is approvable only if the dollar amount listed in the five-year plan for fiscal year 1989-90 reflected the district's intent to do the work for that year. Therefore, the district inappropriately charged this expenditure to the deferred maintenance program during 1989-90.

- (19) The superintendent disclaims as inaccurate our citation of his disagreement with the premise "that lottery funds are to be used for educational purposes." The source of this statement is a letter we received from the superintendent, dated June 7, 1990, in which he states the following:

You have cited in your audit report findings that we used lottery funds improperly. I categorically disagree. Your premise for these findings is that lottery funds are to be used for educational purposes. The only three prohibitions are research, purchases of real property, and/or construction of buildings. . . .In summary, I have always contested that the prohibitions placed on the use of lottery funds were nothing but political measures in order to sell the lottery initiative and in reality don't have any validity.

- (20) By classifying the use of the computer system purchased with lottery funds as "direct student support," the district implies that it uses the computer system for instructional purposes. However, the district has not used this computer system solely to instruct students. For example, the district has designated 43 percent of the system's capacity for the district's accounting applications. In addition, it has designated 12 percent of the system's capacity for class scheduling, which does not provide instruction to students. Of the remaining 45 percent, the district has designated 41 percent for other noninstructional purposes. The district has designated the final 4 percent for purposes we believe may be considered instructional.
- (21) The district implies that lottery funds used to support the construction of the science classrooms was educational. Based on our discussion with the Legislative Counsel, the remodeling of a

classroom is not educational when the remodeling is more in the nature of construction of facilities than of the acquisition or maintenance of instructional equipment. We allowed the district some latitude in its expenditure of lottery funds for constructing work tables and cabinets since we could see that these items could be as close to the educational process as classroom equipment. However, architects' fees and the costs associated with demolition and construction, other than those for the work tables and cabinets, are as peripheral to the educational process as are the disallowed costs related to the construction of facilities.

- ② In our report, we discuss four examples comprising \$231,270 of the \$324,907 in expenditures we believe to be inappropriate. The balance of \$93,637 that we believe to be noneducational consists of items such as the disposal of toxic waste, the acquisition of a vacuum, the purchase of a floor buffer, the building of a planter and a handicap ramp for the board room, and the installation of air conditioning.

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps